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**A study of the impact of foreign direct investment
on firms in the Chinese wine industry**

A thesis
submitted in fulfilment
of the requirements for the degree
of
Doctor of Philosophy in International Management
at
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by
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Abstract

The purpose of this thesis is to examine the process by which emerging market firms leverage foreign resources and capabilities through linkages with foreign affiliates in the home country. This is achieved through a thorough examination of the inter-firm transfer of firm Ownership-specific advantages, resources and capabilities from locally-based foreign affiliates to local Chinese firms via joint ventures and non-equity-based collaborative partnerships.

The theoretical foundation of this study draws on the Linkage, Leverage and Learning (LLL) framework (Mathews, 2006a; 2017) within the broader contextual frameworks of the Investment Development Path (IDP) framework (Dunning & Narula, 1996) and the Ownership, Location and Internalisation (OLI) paradigm (Dunning, 2000; 2001). The particular focus of the study is on the Linkage and Leverage constructs.

A case study method, focused on the Chinese wine industry and its participants, is employed. Qualitative data was collected through 48 in-depth semi-structured interviews with firms (including wine producers, suppliers and distributors), wine institutes and wine bureaux.

This thesis finds that the leverage process encompasses three phases:

- a) *Application*, or directly utilising foreign resources and capabilities without change;
- b) *Adaptation* which involves incrementally changing foreign resources and capabilities and/or adjusting the existing resources and capabilities of local Chinese firms to better utilise foreign resources and capabilities; and
- c) *Amelioration*, or remodelling original foreign resources and capabilities by fundamentally improving and innovating them to better fit the needs of local Chinese firms.

The leverage process shows that local Chinese firms not only learn from foreign affiliates, but also develop foreign resources and capabilities to upgrade their competences. Foreign multinationals contribute to the upgrading of local firms in the Chinese wine industry by introducing technology, techniques and experience in winegrowing and winemaking; expertise in corporate governance and vineyard

management; and well-developed philosophies in the winery business. Further, the findings suggest that inward FDI (IFDI) has played a catalyst role in the development of the Chinese wine industry by a) expanding industrial scale, b) introducing winery business philosophies, c) closing the technology gap between the industry and its international counterparts, d) creating a climate for Sino-foreign communication regarding wine techniques, e) engaging in wine education, f) promoting local wine regions, and g) boosting industrial confidence.

The theoretical contributions of this thesis include the exploration of how the LLL framework can be employed in a home-country context; a richer understanding of “Leverage” within the LLL framework; and the development of a process model which illustrates IFDI’s impact on the upgrading of emerging market firms and their industry within the home country.

Although this research is limited contextually to the wine industry in China, it has implications for other emerging economies that have unique, competitive and irreplaceable Location-specific advantages attractive to IFDI. Public policies that seek to achieve industrial development in such economies can draw on the catalyst role of IFDI. Emerging market firms to gain greater access to foreign resources and capabilities by adopting the linkage-leverage-learning concept as a strategy in their home countries.

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List of acronyms

CADA	China Alcoholic Drinks Association
COFCO	China National Cereals, Oils and Foodstuffs Corporation
DWWA	Decanter World Wine Awards
FDI	foreign direct investment
FTA	free trade agreement
Full-I	full-internalisation
GST	Goods and Services Tax
IDP framework	Investment Development Path framework
IFDI	inward foreign direct investment
I-specific advantages/(I)	Internalisation-specific advantages
I _H -specific advantages/(I _H)	Internalisation-specific advantages of local firms
I _F -specific advantages/(I _F)	Internalisation-specific advantages of foreign firms
IWSR	International Wine and Spirit Research
JV	joint venture
L-specific advantages/(L)	Location-specific advantages
LLL framework	Linkage, Leverage and Learning framework
L _H -specific advantages/(L _H)	Location-specific advantages of home country
M&A	mergers and acquisitions
MNE	multinational enterprises
OFDI	outward foreign direct investment
O _F -specific advantages/(O _F)	Ownership-specific advantages of foreign firms
O _H -specific advantages/(O _H)	Ownership-specific advantages of local firms
OIV	International Organisation of Vine and Wine
OLI framework	Ownership, Location and Internalisation framework
O-specific advantages/(O)	Ownership-specific advantages
Quasi-I	quasi-internalisation
R&D	research and development
SOE	State-owned enterprises
WFO	wholly foreign-owned affiliates

Chapter 1 Introduction

1.1 Introduction

The impact of inward foreign direct investment (IFDI) on firms in host economies is of particular interest to researchers in international business (Chen, Hua & Boateng, 2016; Curran & Ng, 2018; Scott-Kennel, 2004; Wang & Wu, 2016; Yao, Yang, Fisher, Ma & Fang, 2013). Recently, there has also been interest in the impact of outward foreign direct investment (OFDI) on emerging market multinational enterprises (MNEs) (Chen, Li & Shapiro, 2012; Jormanainen & Koveshnikov, 2012; Luo, Xue & Han, 2010; Paul & Benito, 2017) and Chinese MNEs in particular (Buckley, Clegg, Voss, Cross, Liu & Zheng, 2018; Cozza, Rabellotti & Sanfilippo, 2015; Haiyue & Manzoor, 2020; Hang, Jin & Yang, 2017; Huang & Zhang, 2017; Li, Strange, Ning & Sutherland, 2016; Li, Liu, Yuan & Yu, 2017; Li, Li, Lyles & Liu, 2016; Liu & Buck, 2009; Lyles, Li & Yan, 2014; Tang, Gu, Xie & Wu, 2020). The literature in both of these areas suggests the direct and indirect impacts of FDI on the internationalisation and augmentation of the Ownership-specific (O) advantages or firm-specific assets of emerging market MNEs (Bell & Marin, 2004; Li, Li & Shapiro, 2012; Wang & Wu, 2016; Yan, Zhang, Shen & Han, 2018; Yao et al., 2013; Zhang, Zhong & Yu, 2017).

However, research on how firms upgrade their assets through interaction with foreign MNEs and experts has received insufficient attention. The purpose of this thesis, therefore, is to address this gap by an extensive study of actors within an industry receiving foreign investment. The context of the study is the Chinese wine industry, which has, over the past four decades, grown exponentially through the interest of both foreign and local investors. To better understand the upgrading of emerging market firms in their home environment, this thesis draws on the Linkage, Leverage and Learning (LLL) framework (Mathews, 2006a; 2017) within the broader contextual frameworks of the Investment Development Path (IDP) framework (Dunning & Narula, 1996) and the Ownership, Location and Internalisation (OLI) paradigm (Dunning, 2000; 2001).

This study investigates the impact of IFDI on firms in the Chinese wine industry and consequently, on the Chinese wine industry as a whole. This introductory chapter provides an overview. It introduces the background of the research, establishes the rationale for the research inquiry and sets out the parameters of the study by identifying the theoretical gap and research objectives. The theoretical frameworks are explained, the research questions are introduced, and the research methodology and methods are summarised. The potential theoretical contributions, as well as policy and managerial implications of the study are highlighted. Finally, the thesis structure and chapters' contents are outlined.

1.2 Background literature

1.2.1 Theoretical background

The impact of IFDI has long been of interest to researchers in international business. The five decades of studies on FDI concluded that IFDI impacted most of the significant sectors in international business (Paul & Feliciano-Cestero, 2020). IFDI helped develop the absorptive capacity of a country's human capital (Shevelova & Plaskon, 2018), and a country's OFDI (Chen, Zhan, Tong & Kumar, 2020) and financial structure (Tian, Shi & Dou, 2018). IFDI also facilitated employment and the application of trademarks in knowledge-intensive industries (Andrijauskiene & Dumčiuvienė, 2019) and MNEs' innovation and marketing capabilities (Lee & Rugman, 2012).

The impact of IFDI on firms in host economies is of particular interest. Existing studies have resulted in significant findings and contributions to the literature. Through foreign-local equity JVs and industry spillover effects, IFDI positively influenced local firms in host countries, in terms of productivity, technology (Aitken & Harrison, 1999; Choi, 2018; Javorcik, 2004; Negash, Zhu, Lu & Wang, 2020) and innovation capacity (Li, Wan & Wang, 2018; Negash et al., 2020). However, there seemed to be a correlation between the impact of IFDI and the absorptive capacity of local firms. That is to say, local firms in host countries with low absorptive capacity were negatively affected by IFDI and its spillover effects (Aitken & Harrison, 1999; Huang & Zhang, 2019; Lin & Lin, 2010; Negash et al., 2020; Wu, Li, Zhang & Li, 2019).

There has also been interest in the impact of OFDI on emerging market MNEs, in particular Chinese MNEs. Chinese MNEs utilised OFDI as a resource leverage strategy to accelerate internationalisation (Mathews, 2002b; 2006a; 2017). During this process, Chinese MNEs augmented their own advantages by obtaining access to foreign resources (Tan & Mathews, 2015). For example, the case study of a Chinese auto maker Geely acquiring Swedish car maker Volvo showed that the emerging market MNEs conducted mergers and acquisitions (M&A) in foreign markets with a motivation of seeking strategic assets. As a result, OFDI upgraded Geely's innovation capability (Yakob, Nakamura & Ström, 2018). The impact of OFDI on domestic parent firms in emerging markets also occurred through reverse spillovers. Emerging market MNEs with a knowledge-seeking motivation conducted OFDI in developed markets. Their reverse knowledge and technology spillover effects improved their parent firms, in terms of technology (Chen et al., 2012; Li & Fabus, 2019), innovation (Zhou, Hong, Wu & Marinova, 2018), productivity and business scale (Cozza et al., 2015; Li et al., 2016). Further, OFDI indirectly impacted the productivity of other domestic firms that had strong absorptive capability and learned from the emerging market MNEs (Li et al., 2016). The literature strongly suggests both direct and indirect impacts of FDI on the internationalisation and asset augmentation of emerging market MNEs.

However, there is a lack of research on how domestic firm's asset or O-specific advantage upgrading, occurs. There is some evidence of interest in the form of case studies of Sino-foreign JVs and IFDI's impact on local partners. Studies on impacts of foreign affiliates in Sino-foreign JVs in China showed that IFDI mainly played a role in transferring know-how (Bai, Lu & Tao, 2010), such as technological skills, managerial expertise (Bai et al., 2010; Tsang, 2002) and access to foreign markets (Bai et al., 2010). Compared to capital-seeking, the acquisition of know-how was the major motivation for Chinese firms to establish JVs with foreign partners (Bai et al., 2010; Lin, 2005; Peng, 2000; Yan & Child, 2002). The inter-firm alliance or linkage provided the Chinese partner with a means to observe, understand and gain intangible assets from its foreign counterpart through co-operation (Jolly, 2002). However, a wider study on the upgrading of local firms across an industry that incorporates the process by which this

occurs, and the role played by foreign actors (e.g., foreign MNEs and foreign experts) has received scant attention to-date.

1.2.2 Theoretical frameworks

This thesis is underpinned by three theoretical frameworks: a) the Investment Development Path (IDP) framework of economies which plays host to inward foreign direct investment (IFDI), then home to outward foreign direct investment (OFDI) (Dunning & Narula, 1996), b) the Ownership, Location and Internalisation (OLI) or eclectic paradigm of international production (Dunning, 2000; 2001), and c) the Linkage, Leverage and Learning (LLL) framework as an explanation of the internationalisation strategy employed by emerging market MNEs (Mathews, 2006a; 2017). These three frameworks provide a complementary lens with which to view the relationship between IFDI and the development of the Ownership-specific (O) advantages of local firms in the Chinese wine industry. The study shows that while each of these frameworks assists the understanding of the nature of the relationship between IFDI and local firms, there is a significant gap in terms of understanding the specifics of the process whereby the upgrading of the local firms and the industry take place.

This thesis explains how the IDP framework provides a macro (country) level perspective of IFDI-led development, and offers a broad view of the long-term impact on host economies while the OLI, as a paradigm applied primarily at the micro (firm) level, explains why, how and where conventional foreign MNEs conduct IFDI. While each of these contributes to the understanding of motives and impacts associated with IFDI, neither one of them provides sufficient insight into the process of upgrading that occurs within a group of firms in host country industries. For its part, the LLL framework elucidates the process of firm upgrading, but its focus is on emerging market MNEs operating in host, rather than home economies. Thus, in order to better understand the upgrading of emerging market firms in home countries, this thesis draws on the LLL framework within the broader contextual frameworks of the IDP framework and the OLI paradigm. This chapter sets out the intention of the thesis to draw on key complementary concepts from these three frameworks, with a particular focus on the LLL framework. The purpose of comprehensively applying the three theoretical

frameworks is to examine the process of upgrading by local firms associated with IFDI as well as the impact of IFDI on the Chinese wine industry as a whole.

1.2.3 Theoretical rationale

In the light of the interest in the impact of IFDI on emerging market firms, and the absence of research on the specifics of how the upgrading of local firms across an industry occurs in an emerging market, this thesis can make a significant contribution to understanding the process. This thesis aims to address the gap in existing research through a rigorous examination of the nature of the relationship between IFDI and firm upgrading in an emerging market. Specifically, this research study is set in an industry within an emerging economy and examines the process by which foreign O-specific advantages, resources and capabilities are leveraged by local firms in the home country industry to facilitate the development of local firms and the local industry.

This study focusses primarily on equity- and non-equity-based linkages between foreign affiliates and local firms, along with the subsequent transfer of foreign O-specific advantages (advantages specific to foreign ownership), resources and capabilities to local firms. In other words, this research inquiry investigates how foreign O-specific advantages, resources and capabilities are transferred to local firms. The aim is to investigate if and how IFDI can enable the upgrading of O-specific advantages at the firm level, and the consequent development at the industry level, through leveraging foreign resources and capabilities in a home country industry context.

The existence of IFDI in a rapidly expanding industry within an emerging economy provides a context for examining the specific process whereby emerging market firms upgrade by leveraging foreign O-specific advantages, resources and capabilities via linkages with foreign-local JVs and wholly foreign-owned affiliates. It is also pertinent to assess the contribution of IFDI to the development of the home country industry. Further, this study attempts to provide insights into how emerging market firms effectively capitalise on foreign resources and capabilities from IFDI. While using foreign resources as a catch-up strategy for emerging market MNEs is central to the LLL framework, the focus is on resources in host economies. There is scant research on the impact of FDI on emerging market firms in the home country, which provides an

opportunity to explore the interactive relationships or linkages between foreign and domestic firms, along with the associated resource and capability leverage.

To sum up, from a theoretical perspective, the rationale for this study is to better understand the process by which O-specific advantage upgrading occurs within local industries in emerging economies, by local firms, but with foreign presence and influence. The theoretical background and rationale for the study is further explained in section 1.4.

1.3 Study context: The Chinese wine industry

The choice of the Chinese wine industry for this thesis is driven by the fact that the industry is attractive to IFDI and therefore, provides an appropriate setting to investigate the processes through which local Chinese firms across the industry can upgrade their assets or O-specific advantages. Of significance for IFDI in the Chinese wine industry is the fact that China has the natural resources and conditions to produce quality wines. While these conditions do not conform to those more traditionally associated with growing wine grapes (commonly Mediterranean climates), the country can still offer *terroir*ⁱ which is suitable for growing wine grapes. China has a vast territory, covering between 37 and 40 degrees of northern latitude. From east to west, coastal and inland areas have diverse geographical conditions and local climates. Hence, different wine-producing regions can cultivate wine grapes with region-specific pros and cons, and importantly, have the potential to make wine which reflects China's *terroir*.

Another significant reason for a precise analysis of the impact of IFDI on the Chinese wine industry is the market potential of the industry and therefore its attractiveness to investors. A more exact assessment of how and where IFDI has significant impact will enable investors to target their investments to achieve the best results and financial outcomes. As China continues to deepen the reform and opening-up, the Chinese economy is growing rapidly and, with these changes, the purchasing power of the population improves. As the market share of imported wine increases, the awareness of wine (e.g., health consciousness, cosmetic effect and social status indicator) improves and consequently, Chinese consumer demand for wine grows. Thus, China's wine market is beginning to show huge potential and vitality. According to the International

Organisation of Vine and Wine (OIV) (2019a), China is now the fifth largest wine consumer worldwide. There is an expectation of a consumption explosion in the Chinese wine market. It is estimated that China will consume about 5,664.6 million litres (mhl) of wine per annum by 2023 (Euromonitor International, 2019). Further, China is the only country in the world that currently has a large population with a very low wine consumption per capita.

Selecting the Chinese wine industry as the context for this study is also appropriate since IFDI has had a significant and long-term role in the development and high levels of growth that the industry is experiencing. This makes the Chinese wine industry an excellent setting for examining the precise nature of the relationship between IFDI and the way it shapes the growth of firms across the industry. While there is a long history of foreign investment in the Chinese wine industry, the contemporary Chinese wine industry started in 1980 with the establishment of China's first ever Sino-foreign wine JV, Dynasty in Tianjin city (Sina, 2019c). It has been suggested that IFDI has become increasingly important to the Chinese wine industry since then (Jenster & Cheng, 2008). The subsequent development of the Chinese wine industry has caught the attention of the world. Since 1998, world-class vine and wine expositions and conferences have been held in China. These events introduced the Chinese wine industry to the world and brought in IFDI and experts from foreign wine-producing countries to China. The rapid success of the Chinese wine industry is evidenced by the fact that from 2005, a number of Chinese wines started to win awards at renowned international wine competitions.

It is particularly valuable to examine the impact of IFDI on the Chinese wine industry in relation to developing more advanced technology and sophisticated systems. The Chinese wine industry is still at a stage of learning and adopting advanced knowledge, technology and experience from foreign well-developed wine-producing countries, and innovation capability is in its infancy. The introduction of IFDI to the Chinese wine industry can facilitate innovations with regard to technology, techniques, products and management systems for winegrowing, winemaking and corporate operations. The model of Sino-foreign wine joint ventures (JVs) and wholly foreign-owned wine affiliates encourages Chinese firms (including wine producers, various suppliers and distributors) in the local wine industry supply chain to improve their R&D abilities.

The impressive expansion and rapid success make the Chinese wine industry an interesting environment to assess the contribution of IFDI to these achievements. Thus, this is a very relevant context for examining a) how firms in an emerging market upgrade their competences by leveraging foreign resources and capabilities in the home country, and b) how IFDI contributes to the development of an industry in an emerging economy. Clearly, there are practical reasons and theoretical frameworks for investigating the impact of IFDI on firms in the Chinese wine industry and consequently, the whole Chinese wine industry. However, there is a lack of academic research in this area. This study aims to address this gap and has the potential to benefit investors and the wine industry as well as to advance theoretical knowledge.

1.4 Expanding on the theoretical background and rationale of this study

This research inquiry into the impact of IFDI on firms in the Chinese wine industry is underpinned by three theoretical frameworks and their complementarity. This thesis aims to address one gap that is insufficiently accommodated by existing theoretical frameworks, namely the process of O-specific advantage augmentation of local firms through foreign-local inter-firm linkages. These theories and their relevance and limitations in relation to this research will be explained as follows.

The first framework is the IDP framework which illustrates the dynamic interplay of MNE strategy and government policy, the role of FDI in economic restructuring and the consequent economic development (Dunning, 1981a; Dunning & Narula, 1996; Narula & Dunning, 2000; 2010). The IDP framework plays host, then home, to foreign direct investment. At the macro (country) level, the IDP framework provides a global view of the relationship between FDI activities and host country economic development. FDI activities are decided by MNE motivations and strategies, and facilitated or limited by government policies. A country at different stages of IDP has stage-specific government policies towards foreign investment and these policies will influence the nature of IFDI. The inter-relationship between MNE strategy and government policy affects the amount of IFDI and OFDI and the consequent economic restructuring. The IDP framework is important for its recognition that MNE strategy and government policy are the two catalysts for economic restructuring. The IDP framework, from the macro (country)

perspective, sets the environment for the dynamics of IFDI activities with the participation of domestic firms (Dunning, 1981a; Dunning & Narula, 1996; Narula & Dunning, 2000; 2010). However, the IDP framework does not explain the impact of IFDI activities on the upgrading of domestic firms at the firm or industry level.

Complementing the IDP framework is the OLI or eclectic paradigm of international production that at the micro (firm) level explains why, where and how conventional MNEs create FDI. As opposed to the IDP framework, the focus of the OLI paradigm is at the firm level and provides a tool for understanding FDI activities. According to the OLI paradigm, there are three key considerations when deciding on investment strategies for FDI activities. These can provide a framework for evaluating the selection of IFDI in the Chinese wine industry and in this way contribute to an evaluation of the impact of IFDI on the industry. The three considerations of the OLI paradigm are Location-specific advantages of the investment destination (L), Ownership-specific advantages of the MNE (O) and its collaborative partners, and Internalisation-specific advantages (I).

L-specific advantages are the locational attractions of a host country or region for MNEs to conduct foreign production (Dunning, 2000). The L-specific consideration of the investment destination, concerns decision-making about where to conduct FDI activities (Dunning, 1988a; 1991; 1995; 1998b; 2000; 2001; 2002; Dunning & Lundan, 2010; Dunning & Narula, 1996). In the case of IFDI in the Chinese wine industry, the L-specific advantages of the Chinese wine industry, two key locational considerations, terroir and market, have been discussed in the previous section. There are a number of other relevant locational considerations in relation to the Chinese wine industry. These include various supportive policies issued by regional governments in wine business-related areas such as approval procedures, labour force, tax, infrastructure (e.g., land, roads, water, electricity and internet) and low investment costs (e.g., low prices of land, vineyard, winery construction, equipment, production materials and labour). Other considerations are the good absorptive capacity of the industry, and a higher chance of success in China than in developed wine-producing countries (e.g., a greater prospect of developing boutique wine). China also offers a better chance to attain a large business scale and has the potential to make a uniquely Chinese wine. As

can be seen, these L-specific advantages are immobile and non-transferable (Dunning, 1999; Rugman, 1981; Talay & Cavusgil, 2009) and as such, can only be exploited when developing vineyards and wineries in China.

According to the OLI paradigm, the second consideration for MNE investment strategies is the O-specific advantages of foreign MNEs and their collaborative partner firms in the target market. O-specific advantages are competitive advantages that are specific to ownership of these firms (Dunning, 2000), and related to how to overcome the liability of foreignness (Dunning, 1988a; 1988b; 1991; 1995; 2000; 2001; 2002). By studying the differences and complementarity between foreign MNEs and their counterpart firms, the MNEs figure out what they should do to succeed in the target market. This consideration indicates why the OLI paradigm is an important framework that complements the big picture concerns of the IDP framework. The focus is on the micro (firm) level.

In the case of IFDI in the Chinese wine industry, the Ownership-specific advantages (O_F) of foreign MNEs and the Ownership-specific advantages (O_H) of their collaborative partner firms in China both refer to capital, physical assets and intangible assets. Physical assets mainly include vineyards, winery buildings (e.g., brewing workshops, cellars, tasting rooms, offices etc.) and equipment. In terms of intangible assets, foreign MNEs bring in technology, techniques and experience in winegrowing and winemaking, management strategies, staff training and overseas resources (e.g., distribution channels, international media and professional connections). Foreign MNEs also contribute knowledge and expertise in corporate governance; experience in international branding, marketing, sales and product differentiation; and the western concept of wine/winery business. Foreign MNEs also confer the reputation of famous wine brands with international renown. For their part, local Chinese wine firms mainly contribute local knowledge regarding establishing and operating the wine business, for example, natural endowments, local viticulture, market, social networks and the convenience of communicating with local staff, local grape farmers and the government. This research study includes an assessment of these considerations in the processes involved in FDI in the wine industry of the home country and their impact.

Apart from resources, O-specific advantages also refer to capabilities (Dunning & Lundan, 2010) by which foreign MNEs apply their existing assets, and create assets such as training professionals, and innovating and improving technology and techniques (Dunning & Narula, 1996). O-specific advantages are unique (Dunning, 1988b; Narula & Dunning, 2010) and competitive (Dunning, 1999). They are also potentially transferable (Dunning, 1999) via equity- (i.e., JVs) and non-equity-based linkages (i.e., other collaborative partnerships) (Scott-Kennel & Enderwick, 2005).

I-specific advantages refer to the ways by which foreign MNEs organise value-adding activities to augment and/or explore their proprietary O-specific advantages on the target market and the extent of these activities (Dunning, 1988a; 1991; 1995; 2000; 2001; 2002). It is a response to the question of how to conduct FDI activities. The full internalisation of O-specific advantages occurs between foreign affiliates and their overseas parent companies (Dunning, 2000; 2001). The partial internalisation of foreign resources and capabilities happens via equity-based linkages (i.e., JVs) and non-equity-based linkages (i.e., backward linkages, forward linkages, contractual linkages and collaborative linkages) between foreign affiliates and local partner firms (Scott-Kennel, 2001; Scott-Kennel & Enderwick, 2005).

In the case of IFDI in the Chinese wine industry, first, foreign affiliates in China benefit from O-specific advantages (O_F) internalised from their overseas parent companies. Then, local Chinese wine firms may quasi-internalise O_F -specific advantages from their foreign JV partner firms through Sino-foreign wine JVs. Other local Chinese firms (e.g., suppliers, distributors and collaborative alliance partners in the local wine supply chain) may quasi-internalise foreign resources and capabilities from Sino-foreign wine JVs and wholly foreign-owned wine firms via transactional or arm's length relationships. Some local firms without a direct relationship with foreign partners may also benefit from spillover effects, but these are not part of this study. This research focuses on direct inter-firm linkages (i.e., JVs and other collaborative partnerships) and the associated transfer of foreign O-specific advantages, resources and capabilities.

The two conceptual frameworks - the IDP framework and the OLI paradigm - are complemented by the use of a third framework, the LLL (Linkage, Leverage and

Learning) framework which has a different emphasis. The LLL framework suggests a pattern or process which builds on inter-firm linkages, to leverage foreign resources and practise learning and, as a consequence, upgrading eventuates in the foreign markets. It is a process-orientated framework, thus highly relevant to this thesis.

The LLL framework was proposed by Mathews (2002a; 2002b; 2006a; 2006b; 2017) to understand internationalisation strategy with regard to OFDI from developing economies. According to Mathews (2002a; 2002b; 2006a; 2006b; 2017), the LLL framework refers to three pillars: Linkage, Leverage and Learning. Emerging market firms, in order to access foreign resources in markets overseas, first make linkages with foreign incumbent firms. After leveraging foreign resources, emerging market MNEs proceed to establish linkages with other incumbents in the foreign markets to leverage new foreign resources. The Learning which is defined as repeated Linkage and Leverage activities, becomes an effective process whereby the emerging market MNEs accumulate dynamic capabilities (Mathews, 2002a; 2002b; 2006a; 2006b; 2017).

In applying the LLL framework to the context of the Chinese wine industry, an exemplar of an emerging industry from a home-country perspective, it can be shown where it provides a helpful framework and where there are differences that it does not accommodate. In the case of IFDI in the Chinese wine industry, local Chinese firms, as emerging marketing enterprises, leverage foreign resources and capabilities via equity- (i.e., JVs) and non-equity-based linkages (i.e., other collaborative partnerships) with foreign affiliates. Eventually, local Chinese firms augment their O-specific advantages, resources and capabilities by practising the linkage-leverage-learning concept in their home country. This reveals the originality of the Chinese wine industry as the study context for this research, as local firms in the Chinese wine industry do not have to conduct OFDI to access foreign resources. Instead, by relying on L-specific advantages, the Chinese wine industry attracts foreign MNEs that bring in foreign resources and capabilities. Consequently, local Chinese firms can undertake their catch-up strategy at home. It is this approach to drawing on foreign resources that is not considered in the LLL framework, rather it maps more closely to the upgrading of the IDP framework, only at the firm rather than the macro level.

While the understanding of the relationship between linkage, leverage and learning is very helpful for this research inquiry, this study needs to consider in what ways this understanding needs to be extended and modified in IFDI. Consequently, this study investigates the possible application of the linkage-leverage-learning concept in the home country industry (meso) in conjunction with the IDP framework at the country (macro) level establishing an IFDI environment, and the OLI paradigm at the firm (micro) level explicating IFDI activities. It is argued that a combination of the three frameworks will assist the application of the LLL framework in the home country. By doing so, this study provides a theoretical perspective for the strategy of emerging market firms upgrading through leveraging foreign resources and capabilities, based in the home country.

1.5 Theoretical gap, research objectives and research questions

1.5.1 Theoretical Gap

The preceding discussion has shown the relevance of the OLI paradigm and the LLL framework for this research inquiry. Also, it has shown that these two frameworks alone are insufficient to explain the process of upgrading emerging market firms through linkages with foreign affiliates in the home country - this is the theoretical gap that this study sets out to address. The OLI paradigm explains conventional MNEs conducting IFDI activities on foreign markets. The “Internalisation” within the OLI paradigm refers to the transfer of resources and capabilities between foreign affiliates and their overseas parent companies (Dunning, 1988a; 1991; 1995; 2000; 2001; 2002). The LLL paradigm explains emerging market MNEs seeking new resources through building JVs or other collaborative partnerships with incumbents in foreign markets. The “Leverage” within the LLL framework is defined as emerging market firms accessing foreign resources abroad (Mathews, 2006a; 2017). The concept of accessing foreign resources and capabilities needs to be interpreted and understood in the context of emerging market firms in the home country.

1.5.2 Research objectives

This study has two objectives. The first objective is to investigate the process of upgrading that local firms in the home country industry undergo. Specifically, the aim is

to investigate how a group of domestic emerging market firms in a home country industry leverage foreign resources and capabilities through multiple local-foreign inter-firm linkages to upgrade their Ownership-specific advantages (O_H) or firm-specific assets. This research objective can help to formulate new perspectives on the leverage dimension of the LLL framework. This line of inquiry can also enhance the understanding of the process through which IFDI has facilitated the development of local firms and ultimately, the development of the particular industry in the home economy.

The second objective is to evaluate the possible extension and modification of the linkage-leverage-learning concept to understand the impact of IFDI on local firms and local industries in the home country. Correspondingly, this objective is to examine a potentially different path to improvement for local firms in an emerging market instead of going global.

1.5.3 Research Questions

To guide this investigation, four research questions are proposed as follows:

RQ1. *What O-specific advantages, resources and capabilities do foreign MNEs contribute through linkages with domestic firms in the Chinese wine industry on entry?*

RQ2. *How do foreign MNEs contribute to the augmentation of the O-specific advantage, resources and capabilities of domestic firms in the Chinese wine industry?*

RQ3. *What O-specific advantages, resources and capabilities contributed by foreign MNEs through linkages with domestic firms in the Chinese wine industry are developed over time?*

RQ4. *What is the impact of IFDI on the development of the Chinese wine industry?*

The first three research questions examine the impact of IFDI at the firm level. RQ1 investigates O-specific advantages, resources and capabilities that IFDI brings in to the Chinese wine industry via equity- (i.e., JVs) and non-equity-based linkages (i.e., other

collaborative relationships). By applying the notions of “O” (ownership) and “I” (internalisation and quasi-internalisation), RQ1 is designed to set a scene for RQ2 to explore the leverage processes of O-specific advantages, resources and capabilities. RQ2 is process-oriented. In response to the first objective of this study, RQ2 is designed to explore the process of how local Chinese firms, in order to upgrade, leverage foreign O-specific advantages, resources and capabilities via Sino-foreign wine JVs and/or non-equity-based collaborative partnerships with foreign wine affiliates. The answer to RQ2 is one theoretical contribution of this thesis.

RQ3 aims to examine the development of foreign O-specific advantages, resources and capabilities that are leveraged by local Chinese firms. In response to the second objective of this study, RQ3 is designed to evaluate the possible extension and modification of the linkage-leverage-learning concept to understanding the impact of IFDI on local firms in the home country. Findings in relation to RQ3 demonstrate the outcomes of Chinese firms applying the linkage-leverage-learning concept in the Chinese wine industry. These findings provide an empirical support for understanding the leverage process at the firm level. This research question bridges the impact of IFDI from the firm to industry level.

RQ4 as a broad research question aims to examine the outcomes of IFDI activities for the Chinese wine industry as a whole. With the active engagement of IFDI, the contemporary Chinese wine industry has attracted worldwide attention for its economic scale and wine quality over the past forty years. In response to the second objective of this study, RQ4 is designed to evaluate the possible extension and modification of the linkage-leverage-learning concept to understanding the impact of IFDI on local industries in the home country. It does not simply report on the impact of IFDI generally, but examines the impact of IFDI that occurs through multiple linkages and concurrent interactions between domestic and foreign firms.

1.6 Research methodology and methods

This study utilises a qualitative research approach. The ultimate aim of the study is to synthesise the data gathered with the extant literature to develop a theoretical model to highlight the process of the transfer of O-specific advantages, resources and capabilities

from foreign affiliates to emerging market firms in the home country. This process-focus and theory-building align well with the qualitative research approach. Further, there is a lack of academic research on the impact of IFDI on firms in the Chinese wine industry. However, this study employs a novel approach to explore the topic by examining multiple inter-firm linkages and the concomitant asset transfer over time. This aligns well with qualitative research approach which is helpful for comprehending unexplored phenomena.

In order to provide valid and contextualised interpretations from multiple perspectives, a single-case study with embedded multiple sub-units of analysis is employed. The single case is the Chinese wine industry, while the multiple subunits of analysis are local Chinese firms, including wine producers, suppliers, distributors and collaborative partners in the local wine industry supply chain. Through investigating the collaborative relationships between local Chinese firms and foreign affiliates, along with the associated transfer of foreign O-specific advantages, resources and capabilities to local Chinese firms, this study examines the impact of IFDI on firms in the Chinese wine industry and consequently, the whole Chinese wine industry.

The research methods involve different strategies in order to formulate answers to the research questions. First, this study utilises in-depth semi-structured personal interviews. Second, the study analyses a range of documentary evidence, employing narrative analysis. These public materials include company records, industry reports, government documents, academic studies and media information. Informed by the research questions and the analysis of findings, the study aims to develop a refined model of the process of how foreign resources are leveraged by domestic firms in the Chinese wine industry.

In this research, a total of 48 in-depth semi-structured interviews (including 3 pilot interviews) are conducted with 50 interviewees in Chinese and English languages, over a period of five months in China and New Zealand. Interviewees are selected by using purposeful sampling and a snowballing approach. They are from a group of firms with IFDI engagement and collaboration with foreign affiliates in the Chinese wine industry.

Interviews last from one to three hours (pilot interviews last about 30 minutes). All interviews are audio-recorded. Then, the interviews are transcribed, translated from Chinese to English, coded and analysed by applying abductive reasoning. During the entire research, ethical considerations are rigorously applied. Participants are fully informed orally and in writing about the purpose and the anonymity of the research. Interviews are started only after participants give their consent to the study. Interviewees communicate openly during the whole interview process. Finally, all interview audio records, transcriptions and interviewees' information are safely stored with back-ups.

1.7 Theoretical contributions and policy and managerial implications of this study

1.7.1 Theoretical contributions

This study offers three main theoretical contributions. Firstly, this study explored how Mathews' LLL framework can be employed in a home-country context. For this purpose, the LLL framework is combined with Dunning's OLI paradigm to investigate how foreign O-specific advantages, resources and capabilities are leveraged by emerging market firms in the home country. This approach is based on the view that the integration of the O-L-I and L-L-L constructs contributes a valuable catch-up strategy for emerging market firms. In addition to the internationalisation strategy that the LLL framework suggests, emerging market firms can also access foreign resources and capabilities at home by multiple inter-firm linkages with IFDI.

Secondly, this study provides a richer understanding of the idea of "Leverage" within the LLL framework. "Leverage" does not always simply mean "acquire" as suggested in previous work (Mathews, 2006a; 2017). The thesis shows empirically that "Leverage" is a process and can encompass three phases, according to the degree of fit between foreign resources and the local milieu, namely: a) *Application*, b) *Adaptation*, and c) *Amelioration*.

Thirdly, this study contributes to theoretical understanding by developing a process model which illustrates IFDI's impact on the upgrading of emerging market firms and their industry in the home country, with three highlights. The first highlight is that the

model shows the application of the OLI paradigm and the LLL framework, with a complementary lens, in demonstrating the transfer of foreign O-specific advantages, resources and capabilities via inter-firm linkages. The second highlight is that the model illustrates three phases of the leverage process via different types of direct foreign-local inter-firm linkages, for example, equity-based linkages (i.e., JVs) and non-equity-based linkages (i.e., other collaborative partnerships). The third highlight is that the model, by presenting how IFDI influences the augmentation of the O-specific advantages, resources and capabilities of emerging market firms in the home country, illustrates the catalyst role of IFDI playing in the development of the emerging market industries.

1.7.2 Policy and managerial implications

This study provides policy and managerial implications.

Policy implication Public policies that seek to achieve industrial development in emerging economies can draw on the catalyst role of IFDI. For example, the most instrumental assets that foreign wine MNEs contribute to the development of the Chinese wine industry are concepts, experience and expertise regarding wine business operation, winemaking and vineyard management. As all interviewees agreed, the wine business involved a lengthy production time, a large amount of investment, no expectation of a rapid payback, and great attention to technical details. The catalyst role of IFDI is not only the transfer of foreign resources and capabilities, but also about, through transferring foreign resources and capabilities, contributing to a foundation for the evolution of an authentic Chinese wine industry via leverage processes. In addition, IFDI facilitates the restructuring of the industry.

Managerial implication This study explains how emerging market firms can adopt the linkage-leverage-learning concept as a strategy for acquiring foreign resources and capabilities in the home country, instead of going overseas, if some circumstances are satisfied. For example, first, the emerging economy has L-specific advantages attracting IFDI. Second, domestic firms do not have a comprehensive ability to conduct OFDI for acquiring foreign resources. However, these domestic firms can rely on their home advantages to make linkages with foreign affiliates to access foreign assets. Overall,

IFDI can be regarded as a shortcut for local industries in emerging economies to catch up with the international standards.

1.8 The structure of this thesis

There are six chapters in this thesis.

Chapter 2 Literature review

This chapter reviews the literature to evaluate relevant prior research studies and justify why the chosen theories are relevant to the study. The key theoretical lenses that this study employs include the IDP framework, the OLI paradigm, interactive effects between the IDP framework and the OLI paradigm in the host economy, the LLL framework, and equity- and non-equity-based inter-firm linkages. Next, the chapter considers the notion of “Leverage” from prior studies on resource and capability transfer from foreign affiliates to domestic firms in emerging markets via inter-firm direct linkages. Further, the chapter discusses the application of the IDP, OLI paradigm, LLL framework and linkages to the Chinese wine industry. Finally, the chapter identifies the research gap and formulates the research questions that will guide this thesis.

Chapter 3 Study context

This chapter establishes the details of the context where the study is to be conducted. By introducing China’s wine market and wine production, the chapter first highlights two significant L-specific advantages of the Chinese wine industry - terroir and market - that are attractive to IFDI. Then, the chapter explains the potential catalyst role of IFDI in the development of local firms in the Chinese wine industry and ultimately, how the upgrading of the Chinese wine industry can occur, setting the scene for more detailed analysis of these phenomena in the thesis proper.

Chapter 4 Research methodology and methods

This chapter first discusses and explains the rationale of employing a qualitative research approach for this study. Next, it describes the use of a single-case study with embedded multiple sub-units of analysis as the research method to examine the research

questions. Finally, an explanation of data sources, data collection methods and data analysis procedures is provided.

Chapter 5 Findings

This chapter presents findings on: a) the types of direct and indirect foreign-local inter-firm linkages in the Chinese wine industry, b) the evidence of the OLI paradigm in the Chinese wine industry, c) leverage processes, specifically resource and capability leverage within equity-based and non-equity-based linkages, d) the application of the “Learning” within the LLL framework in the Chinese wine industry, and e) the impact of IFDI on the Chinese wine industry at the firm level.

Chapter 6 Discussion and conclusion

This chapter provides discussions and conclusions for the study. It first presents a model of the impact of IFDI on the upgrading of emerging market firms and their industry in the home country, with detailed explanations and discussions integrating findings and key theories. Then, the chapter proceeds to highlight some theoretical contributions, as well as policy and managerial implications of the study. Finally, the chapter indicates the limitations of the study, and outlines suggestions for future research.

1.9 Conclusion

This introductory chapter sets the scene for the research investigation. It establishes that the literature indicates a strong interest in a field of international business, namely the relationship between IFDI and the upgrading of emerging market firms in their home countries. Prior studies provide evidence that the prevalence of IFDI in the wine industry of China and the rapid development of the industry make the Chinese wine industry an appropriate context for this study. Thus, this study intends to examine the impact of IFDI on the upgrading of local firms in the Chinese wine industry and consequently, the development of the Chinese wine industry over time.

In order to achieve the research objectives, this thesis comprehensively integrates the key theories including the IDP framework, the OLI paradigm, the LLL framework and inter-firm linkages. In particular, the study applies the LLL framework in a home-country context. The rationale of the study is to better understand the process

whereby emerging market firms upgrade their O-specific advantages within a local industry in the home country, with the impact of IFDI. The focus of the study is the equity- and non-equity-based linkages between emerging market firms and foreign affiliates, along with the consequent transfer of foreign resources and capabilities to emerging market firms. The Chinese wine industry and local Chinese firms including wine producers, suppliers, distributors and collaborative partners in the local wine industry supply chain are employed as the single case and the multiple subunits of analysis.

As a result, this study first, addresses the theoretical gap by disclosing the process whereby emerging market firms upgrade through leveraging foreign O-specific advantages, resources and capabilities in the home country via equity- (i.e., JVs) and non-equity-based linkages (i.e., other collaborative partnerships) with IFDI. Second, the study develops the model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country.

Furthermore, some theoretical contributions, as well as policy and managerial implications are highlighted. There are three theoretical contributions: a) the application of the LLL framework in a home-country context, b) a richer understanding of "Leverage" within the LLL framework through the interaction of key constructs, and c) a process model to illustrate the impact of IFDI on the upgrading of emerging market firms and their industry in the home country. There are policy and managerial implications: a) public policies with IFDI's catalyst role for industrial development, and b) the LLL strategy for emerging market firms to acquire foreign resources in home country.

Chapter 2 Literature review

2.1 Introduction

This chapter reviews the three frameworks that provide a complementary lens to examine IFDI and firm O-specific advantage development in the Chinese wine industry. Firstly, the three frameworks are explained. Secondly, the way that the three frameworks are combined to address the identified research gap are established. Thirdly, the research questions which flow from this theoretical stance and gap in the current literature are stated.

The first framework is the IDP (Investment Development Path) framework which provides a macro view of the interaction between FDI and the economic development of countries as host to IFDI, then home to OFDI. The second framework is the OLI (Ownership, Location and Internalisation) or eclectic paradigm of international production which provides a rationale for why, how and where conventional MNEs undertake FDI. The OLI paradigm can also be applied to firm-level development. The third framework is the LLL (Linkage, Leverage and Learning) framework which provides an explanation of the mechanisms behind the internationalisation strategy employed by emerging market MNEs.

It is by integrating key complementary concepts from these frameworks that the thesis will investigate an emerging industry in an emerging economy. The IDP framework provides a macro level perspective of FDI-led development, and offers a broad view of the long-term impact of FDI on economies that are host to MNEs. The OLI paradigm, in contrast, is applied primarily at the firm level, more specifically MNEs, to explain why, how and where FDI takes place. Emphasis is given to the development of O-specific advantages in the home country to be exploited abroad via FDI. The LLL framework elucidates the process of firm upgrading, but its focus is on emerging market MNEs operating in foreign host countries, rather than in their home countries. While each of these frameworks contributes to the understanding of motives, determinants and impacts associated with FDI, none alone provides rich insights into the process of upgrading that occurs within a group of firms - both foreign and local - in an emerging economy (as

host/home, respectively) context. Thus, in order to better understand the upgrading of emerging market firms in the home country - a process likened to the “Black Box” of the IDP framework by Scott-Kennel and Enderwick (2005) - this thesis draws on the LLL framework within the broader theoretical context of the IDP framework and the OLI paradigm.

Section 2.2 introduces the IDP framework as a macro/country-level concept, illustrating how foreign direct investment (FDI) impacts economic development through interaction between FDI, government policy and economic restructuring. This thesis uses the IDP framework as a foundational theory to map the dynamic relationships among OLI configuration, inward and outward FDI, and economic development.

Section 2.3 presents the OLI framework as a micro/firm-level paradigm, explaining how Ownership-, Location- and Internalisation-specific advantages interact at the firm-level (in contrast to the extent and pattern of international production and foreign direct investment underpinning the IDP framework at the macro level).

Section 2.4 explores the interplay of the IDP framework and the OLI paradigm suggesting the need to consider the inter-organisational linkages between foreign and indigenous firms, and the subsequent impact on the transfer of firm or Ownership (O)-specific advantages, resources and capabilities in the process of undertaking FDI and operating in the host economy. This thesis proposes that the types of foreign-local linkages formed is central to understanding the extent and nature of the transfer. Specifically, this thesis draws attention to the differences between equity- and non-equity-based inter-firm linkages.

Section 2.5 introduces the LLL framework to bridge the gap between the IDP framework and the OLI paradigm as an explanation of how transferred O-specific advantages, resources and capabilities from foreign affiliates contribute to domestic firms. The LLL framework is underpinned by an accelerated internationalisation strategy through leverage by emerging market MNEs that conduct OFDI in developed countries. Thus, it is a novel approach to apply the linkage-leverage-learning concept to the upgrading of emerging market firms through IFDI involvement in the home country.

Section 2.6 reviews relevant literature on inter-firm linkages, including equity joint ventures (JV) and non-equity-based collaborative partnerships respectively. Section 2.7 reviews previous empirical studies of resource transfer from foreign affiliates to domestic firms in emerging markets via inter-firm direct linkages. The purpose of the section is to acknowledge earlier research on the processes of inter-firm resource transfer, highlight the gap, and focus the research lens on resource transfer from foreign affiliates to emerging market firms in the home country. Through these means, the aim is to provide a solid theoretical and empirical foundation for the research investigation conducted in this thesis.

Section 2.8 analyses and discusses the application of the IDP framework, the OLI paradigm, the LLL framework and linkages to the Chinese wine industry. While these frameworks can provide insights into the impacts of IFDI on the upgrading of firms in the Chinese wine industry and on the consequent development of the Chinese wine industry, they do not fully explain the process whereby these phenomena happen. In particular, the LLL framework does not elaborate on the “Leverage” process, in other words, how O-specific advantages, resources and capabilities contribute to indigenous firm upgrading. Thus, this is where the study can make a valuable contribution.

Lastly, section 2.9 identifies the research gap that emerges from a review of the literature. This study aims to address the research gap by combining the IDP framework, the OLI paradigm and the LLL framework with inter-firm linkages. The four research questions that guide the thesis are presented.

2.2 The Investment Development Path (IDP)

The first framework, the *Investment Development Path (IDP)* explains the process by which a country upgrades its international investment position, the relationship between FDI activities and economic growth during this process, as well as the role of two catalysts, FDI and government, for economic restructuring (Dunning 1981a; 1986; Dunning & Narula, 1996; Narula, 1996; Narula & Dunning, 2000; 2010). To set the theoretical scene for this thesis, the IDP framework will be explained to a) demonstrate the interaction between IFDI and government policy, and b) contribute to an understanding of the dynamic relationship between FDI and industrial development.

However, the focus of the thesis is primarily at the micro level, i.e., the upgrading of local firms, which in turn, underlies the industrial development of the wine industry at the meso level. The process by which upgrading at both micro and meso levels occurs will also be explored.

The IDP framework describes the association between foreign investment and a country's economic development. A country at different stages of IDP has stage-specific government policies towards foreign investment and these policies attract different types of IFDI. FDI affects the development of the local economy through first round effects on the host country's economy and foreign affiliates, and second round effects on local firms. The proportion of outward to inward investment determines the country's *net outward investment* (NOI^i) position which over time, in conjunction with government and business-led change, leads to economic restructuring. Change to NOI and economic development prompts the country to move into the next stage of the IDP (Dunning, 1981a; 1986). A country at the early stages of IDP has a low level of economic development, lacks technology and relies heavily on natural resources and cheap labour. Its economic policy is underdeveloped, either focusing on resource- and labour-intensive sectors or on the reduction of structural market imperfections. In this phase, the country's FDI policy is either absent or encourages IFDI in import-substituting manufacturing and export-oriented industries. Thus, its IFDI is resource-seeking and market-seeking; and its OFDI is strategic asset-seeking and created asset-seeking. By comparison, when a country is at the later stages of the IDP, with a high level of economic development, government policy places greater emphasis on supervision, regulation and adjustment of the economic structure. In this phase, IFDI is more efficiency-seeking and trade-related, and its OFDI prefers capital- and knowledge-intensive industries (Dunning & Narula, 1996).

A country's IDP stage depends on its NOI position. Changes to the amount of IFDI and OFDI are determined by two main catalysts, the *MNE strategy* of the investing company and the *government policy* of the host economy. The IDP framework illustrates the dynamic interaction between these two catalysts and the economic development of a country (Dunning, 1981a; Dunning & Narula, 1996; Narula & Dunning, 2000; 2010). Further, underlying the process of upgrading, is the interplay

between the dynamic changes of MNE strategy (FDI changes) and government policy (non-FDI changes), which influences the Ownership-specific advantages of foreign and indigenous firms (O), the Location-specific advantages of the host country (L) and the Internalisation-specific advantages of the MNE (I). The rest of the section will explain how OLI configuration changes at different stages of a country's IDP.

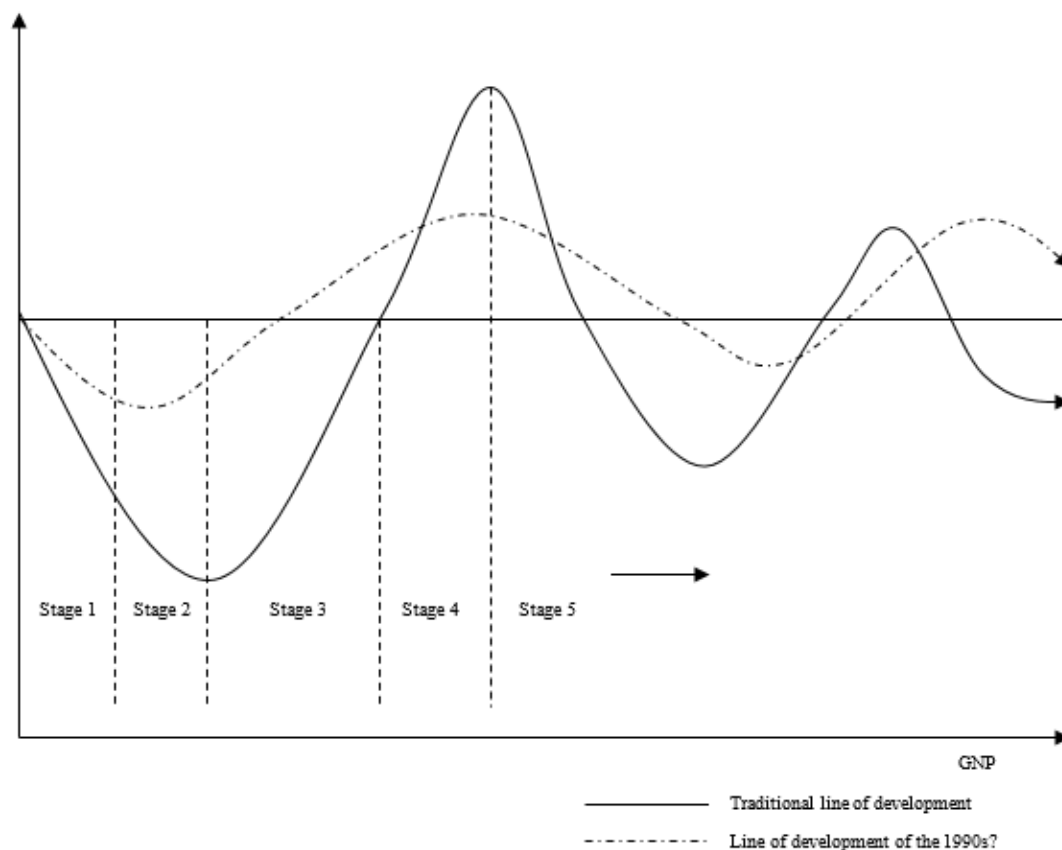


Figure 2.1 IDP Trajectory (Source: Dunning & Narula, 1996, p. 2)

Note: Not drawn to scale - for illustrative purpose only

There are five stages of the IDP trajectory (Dunning & Narula, 1996). Figure 2.1 shows the changes in a country's IDP pattern as the economy develops. At stage 1, the country has very little IFDI and virtually no OFDI. Its L-specific advantages are insufficient to attract investment. The country might have substantial natural assets which could attract IFDI, but typically remains deficient in created Location-specific assets. Low

home-market demand and low per capita income, underdeveloped economic systems/government policies, inadequate technology and infrastructure, as well as a poorly-trained workforce are not able to support OFDI by local MNEs, whose O-specific advantages of domestic firms are underdeveloped. Government is the main investor in the country's economic construction in this preliminary stage of development (Dunning & Narula, 1996).

At stage 2, the country's NOI drops further as IFDI increases, while OFDI emerges, but remains insignificant. IFDI is attracted to import substitution manufacturing such as resource-intensive/labour-intensive production, primary commodities, low technology and light manufacturing. The L-specific advantages of the country increase, and government policies such as export subsidies and technological development or M&A, encourage the development of export-oriented industries, created-asset accumulation and OFDI. Significantly for the focus of this thesis, at this point the O-specific advantages of indigenous firms increase, with major manifestation of skill and knowledge accumulation in relation to primary industries and consumer goods, as well as capital export in the later phase of this stage. Lastly, I-specific advantages of indigenous firms depend on government policies, because government-induced incentives influence domestic firms' abilities to organise value-adding activities. At this stage, the motivations for OFDI are market-seeking, strategic asset-seeking and created asset-seeking; while the motives for IFDI are primarily import-substituting production (Dunning, 2001; Dunning & Narula, 1996).

At stage 3, the country's growth rate of IFDI decreases while its growth rate of OFDI increases, with more OFDI flows to countries at stages 1 and 2 of the IDP. Associated with these changes, the L-specific advantages of the country improve. For example, the stock of created assets based on professional training, innovative activities and technological capabilities increases, while the comparative advantage of labour-intensive activities decreases (partially due to the increase in wage rates). The domestic market enlarges and demands higher quality goods. Government policies aim to reduce structural market imperfections in resource-intensive manufacturing, encourage more technology-intensive industries, and attract IFDI in industries with the strongest L-specific advantages but with the weakest O-specific advantages of local

firms. As the relative O-specific advantages of foreign firms decline and foreign firms need to be more specialised in intangible knowledge, the O-specific advantages of local firms improve. At this stage, the motives for IFDI are efficiency-seeking and strategic asset-seeking; while the motivations for OFDI are market-seeking and export platform-seeking (Dunning & Narula, 1996).

At stage 4, the country's OFDI stock is equal to or larger than its IFDI stock, and the growth rate of OFDI is higher than that of IFDI. OFDI is usually undertaken by declining industries such as labour-intensive industries, and flows towards countries at lower stages of IDP. The L-specific advantages of the country typically derive from created assets. Labour cost is higher than capital cost, and capital-intensive techniques are encouraged. The O-specific advantages of foreign firms are more transaction-related rather than asset-related. The role of the government focuses more on supervision, regulation and structural adjustment. The motivations of IFDI at this stage are asset-seeking, market-seeking and trade-related; and the type of OFDI is capital- and knowledge-intensive (Dunning & Narula, 1996).

At stage 5, the country's NOI falls first, and then fluctuates around zero. This means that inbound and outbound FDI stocks gradually reach a balance. The O-specific advantages of firms from the country at this stage reflect the firms' abilities to acquire assets, efficiently organise their advantages, and exploit the gains of cross-border common governance. The government, through collaboration with enterprises, fosters efficient markets and reduces costs of structural adjustment and transactions. At this stage, IFDI comes from countries at lower stages of IDP with the primary investment motivation of market- and knowledge-seeking, in particular, rationalisation- or efficiency-seeking (Dunning & Narula, 1996).

The literature shows that there is much support for the notion that IFDI contributes to the host country economic development, as per the central tenant of the IDP, and that the degree of the contribution relates to characteristics of the host country and industry environment (Adams, 2009; Makki & Somwaru, 2004; Nunnenkamp & Spatz, 2004; Upadhyaya, Pradhal, Dhakal & Bhandari, 2007; Zhang, 2001). Specifically, Adams (2009) studied Sub-Saharan African countries and concluded that first, IFDI transferred

technology, expertise in marketing, management and innovation; and second, IFDI's impact depends on the host country's environment such as policy, absorptive capacity and prospects of inter-firm linkages between foreign and domestic investments. Further insight is offered by Makki and Somwaru (2004) who studied 64 developing countries and found that IFDI stimulated domestic investment and was therefore important for the countries' economic growth. Their study showed that IFDI's contribution was enhanced by the presence of stable and suitable policies and institutions. In another study, Nunnenkamp and Spatz (2004) examined American FDI in a large number of developing countries including China. Their conclusion was that the impact of IFDI on economic growth in developing countries is determined by the characteristics of the local economy and industries. Research by Upadhyaya, Pradhan, Dhakal and Bhandari (2007) was conducted in six East European countries and indicated that IFDI had a significantly positive effect on the economies of these countries. Finally, Zhang (2001) studied 11 emerging economies from East Asia and Latin America, and claimed that country-specific conditions such as the stability of the host economy and encouragement of export-oriented investment, influenced the extent of IFDI's stimulative effect on economic development.

The IDP framework, through its careful delineation of key phases and the corresponding understanding of the inter-relationship between internal economic conditions and policies in the home country and the role of IFDI, provides a helpful theoretical framework for understanding IFDI and its potential impact on economic development in the home country. In this way, this framework provides one key to examining the macro-level process whereby IFDI impacts the Chinese wine industry, a primary question in this research inquiry. Furthermore, the studies cited above which explore the impact of IFDI on economies in developing countries, also demonstrate the link between the impact of IFDI and internal conditions and policies, as postulated in the IDP framework. The IDP framework thus provides a solid theoretical foundation for investigating the process of FDI and its impact on the economic development of the home country. The IDP framework also clarifies how NOI changes propel the country's IDP advances to higher stages. However, the process by which economic development occurs at the firm level is not well elucidated by the IDP framework. To deal with this limitation, this research study also draws on other theoretical frameworks. The

following section introduces the OLI or eclectic paradigm which provides a firm-oriented lens to examine the process of O-specific advantage augmentation by MNEs, as an underpinning of a countries' economic development and eventual OFDI.

2.3 The OLI paradigm

In contrast to the IDP framework, Dunning's eclectic paradigm explains the level and pattern of FDI activity by MNEs as determined by Ownership (O)-specific advantages, Location (L)-specific advantages and Internalisation (I)-specific advantages (Dunning, 1977; 1981b; 1988a; 1991; 1995; 2000; 2001). The eclectic paradigm is one of the most widely recognised theoretical frameworks in international business (IB) research and is a robust framework for investigating the dynamics of FDI in relation to an MNE. In particular, the OLI paradigm has been employed to explain the modality that an MNE uses to enter a foreign market, specifically demonstrating that when all three variables are present FDI will be chosen as the mode of entry. The paradigm's relevance to this thesis is twofold. Firstly, it provides a framework for examining the interaction between existing and augmented O-specific advantages and L-specific advantages of the host economies in which the MNE operates. Secondly, the OLI paradigm is useful for examining the extent to which quasi-internalisation (I) of such advantages through inter-firm linkages stimulates local firm development. Correspondingly, the OLI paradigm can help to examine the processes by which FDI can impact firms in the Chinese wine industry, and to assess the outcomes of FDI activities for the Chinese wine industry as a whole.

The OLI paradigm asks three basic questions. The first question that the OLI paradigm aims to address is: *where do MNEs choose to exploit their unique competences overseas?* The idea of Location-specific advantages was adopted from McManus' (1972) perspective that a firm needed to locate its activities to a place abroad which was convenient for production or sales. This would enable the firm to access resources such as cheap labour, capital and materials to sell close to its customers, and/or to save costs of transportation and tariffs (Kogut, 1998).

Location-specific advantages include resource endowments, the economic system, government and the organisation of economic activity (Dunning & Narula, 1996).

Firstly, a host country's resource endowments include natural assets and created assets (such as skilled labour and infrastructural facilities). The dynamics of resource endowment development are related to the economic, social and political environment. Resource structure and size are primary issues that impact the character, quality and extent of natural and created assets. Secondly, the economic system refers to the orientation, that is outward-looking, export-oriented (OL-EO) or inward-looking, import-substituting (IL-IS), of the economy and policy (Ozawa, 1992). A country's economic orientation influences its economic development, FDI pattern and consequently, investment development path. Compared to IL-IS regime, OL-EO countries have more IFDI and OFDI. Also, an OL-EO policy orientation has been shown to lead to economic growth and more rapid IDP progression. Lastly, macro-economic policy relates to the economic system, while macro-organisational strategy influences market structure, the efficiency of economic activity and therefore, economic structure and associated FDI activity, which evolve over time (Dunning & Narula, 1996).

The literature shows that L-specific advantages vary depending on the degree of a given economy's development (Blonigen, 2005; Nayak & Choudury, 2014; Ramírez-Alesón & Fleta-Asín, 2016; Tahir & Larimo, 2004). For example, resource endowment and infrastructure are seen as more essential for less-developed economies, human capital is argued to be more influential for transition economies, while it is suggested that innovation appears to be more prized by developed economies (Ramírez-Alesón & Fleta-Asín, 2016). In China, twelve main L-specific advantages attract FDI inflow, namely large market size, special tax concessions, land leasing arrangements (Zhang, 2001), low labour and material costs, special economic zones, further liberalisation of FDI regulations, diversified industries, well-developed infrastructure, relatively high technology and investment absorption capacity by Chinese firms, decreased tariffs and non-tariff barriers (Marton & McCarthy, 2007), support facilities and predictable foreign exchange rates (Houde & Hak-Loh, 2000).

L-specific advantages are based on location-specific factors (Ramírez-Alesón & Fleta-Asín, 2016) and consequently are often immobile and non-transferable to other locations (Dunning, 1999; Rugman, 1981; Talay & Cavusgil, 2009). Location factors

can be utilised as variables to measure the L-specific advantages of a country, a region, or an industry. The study by Ramírez-Alesón and Fleta-Asín (2016), for example, employed a set of location factors and proved that first, these factors were effective as determinants in attracting IFDI; and second, these determinants varied according to the developmental stage of a country. Location factors identified in the literature include a) natural resources (Buckley, Clegg, Cross, Liu, Voss & Zhang, 2007), b) institutions (Alguacil, Cuadros & Orts, 2011; Bevan, Estrin & Meyer, 2004; Biglaiser & DeRouen, 2006), c) infrastructure (Bevan & Estrin, 2004; Dunning, 1999; Ranjan & Agrawal, 2011; Rugman, 1981; Vogiatzoglou, 2008; Zhang, 2001), d) production and transportation costs (Jeon & Rhee, 2008; Tahir & Larimo, 2004; Yamawaki, 2006), e) market size and potential (Dunning, 1999; Pantelidis & Kyrkilis, 2005; Pantelidis & Nikolopoulos, 2008; Ranjan & Agrawal, 2011; Rugman, 1981; Villaverde & Maza, 2015; Vogiatzoglou, 2008), f) qualified labour (Ranjan & Agrawal, 2011; Villaverde & Maza, 2015), g) technology (Ho & Rashid, 2011), and h) R&D innovation (Pantelidis & Kyrkilis, 2005; Pantelidis & Nikolopoulos, 2008; Villaverde & Maza, 2015). Rugman (1981) and Dunning (1999) also found other L-specific advantages may include accessibility and availability of knowledge, government investment and industrial policies, free trade barriers, geographical distance, language, culture and industrial clusters.

L-specific factors provide both opportunities and challenges for foreign companies investing in the host country. L-specific advantages are important in the context of this thesis because they influence propensity of firms, both foreign and indigenous, to form linkages (see sections 2.5 and 2.6). Indeed, the ability of local firms to act in the capacity of suppliers, customers and other business partners can be considered as a L-specific advantage.

The second question that the OLI paradigm aims to address is: *what enables MNEs to overcome the liability of foreignness and retain competitiveness over indigenous firms in a host country?* This question relates not only to the possession of firm-specific advantages which facilitate exploitation of overseas markets (Yamin, 1991), but also to the extent to which these advantages can be internalised within the firm across national borders. For example, cost or marketing advantage enables firms to overcome

disadvantages and compete against local firms in the host country, so as to own and manage facilities overseas, and then, add value to them, both upon entry and over time. These advantages are unique to the firms, and as such are referred to as Ownership-specific advantages (O) (Dunning, 1988b). In contrast, general “resources and capabilities” as a broader term is non-proprietary.

Ownership-specific advantages were initially based on the theory of industrial organisation economics, and focused on intangible assets (Lundan, Mirza & Zhan, 2011), including organisational knowledge, entrepreneurial skills, access to markets, market structure, culture and institutional environment (Dunning, 1981b). The concept of Ownership-specific advantages has subsequently been extended and integrated with the theory of firm which is a concept of resource-based dynamic capabilities (Dunning & Lundan, 2010). This revision is important, because it allows for a broader view of both core and non-core, intangible and tangible assets, that might accompany FDI, and thus, have the potential for subsequent transfer to local firms.

Hence, *O-specific advantages* encompass a collection of firm-specific assets. These include tangible benefits (e.g., product superiority, production and service technology associated with economies of scale and capital intensity), and intangible advantages (e.g., knowledge, managerial practices, marketing systems, distribution systems, employment practices, human skills, training systems and ability to exploit them) (Narula & Driffield, 2012; Scott-Kennel, 2001; 2004b; Talay & Cavusgil, 2009). O-specific advantages of MNEs also include “the advantages of multi-nationality and common governance” (Scott-Kennel, 2001, p.57), and are transferable across international operations (Dunning, 1999; Ferreira, Pinto, Serra & Santos, 2013). The relevance of O-specific advantages for this thesis, is that they offer the potential for transfer (or diffusion) across firms, particularly in the case of direct inter-firm linkages, where MNEs and local partners may share and develop O-specific advantages.

The third basic question that the OLI paradigm can help to answer is: *how do MNEs exploit their unique competences overseas via FDI or cooperative modes of entry?* The term, *Internalisation-specific advantages* refer to the ways in which MNEs organise value-added and asset-augmenting activities in cross-border markets and the extent to

which this occurs. Specifically, with regard to FDI, I-specific advantages refer to a) the extent to which MNEs fully internalise O-specific advantages through wholly foreign-owned affiliates, or b) the partial internalisation of selected O-specific advantages through equity joint ventures or non-equity-based alliances (Dunning, 2000; 2001).

In the context of FDI, therefore, I-specific advantages are those conferred by the ability of MNEs to access selected O-specific advantages via intra-firm transfer or full-internalisation in affiliates overseas (Dunning, 2000; 2001). Equally, such advantages may be obtained through sharing or quasi-internalisation (Scott-Kennel, 2001) of resources and even O-specific advantages with foreign partners.

Quasi-internalisation means that foreign affiliates transfer resources and capabilities to local business partners through inter-firm equity- (e.g., JVs) and non-equity-based collaborations (e.g., suppliers, distributors, contractual and strategic alliance partnerships) (Scott-Kennel, 2001). Hence, the formation of linkages between foreign-owned affiliates and indigenous firms can be an important means by which local firms can learn and develop their own advantages (Dunning, 2001; Scott-Kennel, 2001).

Internalisation enables MNEs to protect their O-specific advantages and to reduce transaction and co-ordination costs (Buckley & Casson, 1976; Talay & Cavusgil, 2009). Compared to licensing, franchising and alliances, internal markets are efficient because internal transfer prices ease transactions, for MNEs in particular, in knowledge- and technology-intensive industries (Li & Gammelgaard, 2014). Internalisation has played an important role in keeping the proprietary advantages relating to advances in technical and marketing know-how within the firms themselves. It is through FDI that this has been possible to achieve across national borders and is therefore pertinent to the current study.

The growth of inter-firm relationships, including strategic alliancesⁱⁱⁱ such as “joint ventures, minority equity stake, coproduction and joint research and development” (Das & Teng, 1998, p.491) agreements, as well as other collaborative organisational forms in the supply chain (Dunning, 2001) has presented opportunities for sharing resources

through quasi-internalisation, also known as “alliance capital” (Dunning, 1995). The quasi-internalisation of advantages occurs via relationships between firms and collaborative business partners when it is perceived that more net value would be provided by partnering with external companies. Such relationships offer opportunities for mutual upgrading and exchange of advantages.

Indeed, prior studies show that IFDI into developing countries has brought in capital and other scarce resources needed by host economies (Boateng & Glaister, 2000; Harrison & McMillan, 2003; Héricourt & Poncet, 2009), to mitigate financial shortages (Erel, Jang & Weisbach, 2015; Harrison, Love & McMillan, 2004; Héricourt & Poncet, 2009; Khatami, Marchica & Mura, 2015; Larsson & Finkelstein, 1999) and improve R&D and productivity (Bertrand, 2009; Bwalys, 2006; Cassiman, Colombo, Garrone & Veugelers, 2005; Cull, Li, Sun & Xu, 2015; Hagedoorn & Duysters, 2002; Stiebale & Reize, 2011; Vaara, Sarala, Stahl & Bjorkman, 2012) of local partner firms. In China a study of 914 cross-national M&A from 1994 to 2011, provides empirical support for the positive effects of IFDI on partner firms in terms of finance, R&D and productivity (Chen et al., 2016). Cross-border internalisation and subsequent quasi-internalisation of such resources via inter-firm linkages such as equity- and non-equity-based collaborative partnerships between foreign affiliates and domestic firms can play an essential role in upgrading O-specific advantage, resources and capabilities of the latter.

In summary, although the OLI paradigm is focused on MNEs and relates to entry mode, it can also be used to help evaluate the impact of IFDI on MNE affiliates in the host economy. For instance, different entry and market servicing modes (including cooperative modes) may show how foreign affiliates exploit their own proprietary advantages (O_F) in the host industry, or demonstrate the benefits of foreign affiliates interacting with local (host) environment advantages (L_H) and the subsequent advantages to local industry players (O_H) over time due to direct linkages and indirect spillover effects.

2.4 Interactive effects between the IDP framework and the OLI paradigm in the host economy

After thoroughly discussing the IDP framework (section 2.2) and OLI paradigm (section 2.3), this section addresses the question of how these two frameworks function together to explicate the impact of IFDI on domestic firms. Dunning (2001) described the relationship among IDP, OLI, FDI, foreign MNEs and indigenous firms as follows:

The basic hypothesis of the IDP is that as a country develops, the configuration of the OLI advantages facing foreign-owned firms that might invest in that country, and that of its own firms that might invest overseas, undergoes change.... The concept also suggests the ways in which the interaction between foreign and domestic firms might itself influence the country's investment path.... (p. 180)

The statement reveals three key points: a) OLI configuration changes as a country's economy develops, b) the change of OLI configuration influences IFDI and OFDI, and c) a country's IDP position is impacted by the interplay between O-specific advantages of foreign and domestic partner firms. Considering that IFDI and OFDI influence a country's IDP position and that MNE activity can play a significant role in the development of a host economy by acting as a catalyst to local firm development, this section examines the interaction between the OLI paradigm and IDP framework.

FDI-assisted development, as modelled by the IDP framework, is achieved through a process of dynamic interaction and interdependence among the O-specific advantages of foreign MNEs (O_F), O-specific advantages of domestic firms in a host country (O_H), and L-specific advantages of the host country (L_H) (Narula, 1996; Narula & Dunning, 2010). For example, the host country seeks to develop the local economy by attracting MNE activities. On the one hand, the quality of MNE activities depends on the motivation of the investment which is influenced by the L_H -specific advantages of the host country (Narula & Dunning, 2000); on the other hand, the existing absorptive capability of domestic firms in the host industry affects the extent to which the local economy could benefit from the MNE activities while the L_H -specific advantages of the

host country shapes domestic firms' absorptive capability (Cantwell & Narula, 2001). Through absorptive capability, domestic firms internalise spillovers from FDI by either collaborating or competing with MNE affiliates; if domestic firms are not capable enough to benefit from IFDI, they are likely to be squeezed out of the market (Narula & Driffield, 2012).

As the process of this dynamic interaction underlies the progression of the IDP of the host economy, the IDP framework remains powerful for studying the interaction between investment and development. Narula and Dunning (2010) later defined this as the "*interaction IDP*" (p. 266) which explores the three-way interactive effect between O_F and L_H , O_F and O_H , as well as O_H and L_H ; where each element leads to changes in the others at a macro/country-, meso/industry- and micro/firm-levels. It provides an approach by which this thesis seeks to analyse why China demonstrates a connection (positive and/or negative) between FDI and the upgrading of its wine firms and its wine industry.

Interactions between O_F and L_H To study the impact of FDI on domestic firms in a specific industry, the interactions between FDI-related firms and the host environment become an essential research focus. This is in line with studies by Durán and Úbeda (2001) and Bellak (2001). The environment first, includes linkages with foreign firms, and second, involves a variety of factors related to the industry such as social and cultural background, economic institutions and industrial regulations, infrastructures and business approaches for producing and transferring techniques and knowledge (Narula & Dunning, 2010), as well as the local government (Ozawa & Castello, 2001).

To examine the interplay between FDI and the host environment, first and foremost, *policy orientation* can encourage or discourage FDI. Industrial policy involvement differs according to the IDP stage and the host country's strategy in relation to the type and quantity of FDI that the country aims to attract. This means that industrial policy needs to systematically integrate FDI, in order to create the ideal opportunity for industrial development (Narula & Dunning, 2010). The quality of institutions shapes the ability of industrial actors to take advantage of FDI. For example, many developing countries during their economic transition, shift from import-substituting policies to an

export-oriented stance (Narula & Jormanainen, 2008), because inefficient institutions decrease the efficiency of resource and knowledge transmission (Lall & Narula, 2004; Rodrik, Subramanian & Trebbi, 2004; Meyer & Peng, 2005; Asiedu, 2006). In order to foster specific industrial and technological development trajectories, the host government needs to provide specific location-bound advantages by investing in tangible and intangible infrastructure so as to attract mobile FDI (Narula & Dunning, 2010).

Moreover, *MNE affiliate-host government interaction* efficiently enables the O-specific advantages of MNE affiliates to match the L-specific advantages of the host environment, and as a result, facilitates the potential development of the host economy (Ozawa & Castello, 2001). There are reciprocal advantages, because the MNE affiliates own firm-specific intangible assets such as technology, managerial knowledge and marketing skills, while the host government controls state-owned L-specific factors including natural and human resources, infrastructure, the local market and the overall economic environment (Ozawa & Castello, 2001). Specifically, the interaction between the MNE affiliate and the host government involves the establishment and operation of the affiliates (Ozawa & Castello, 2001). On the one hand, the MNE affiliates enjoy the L-specific advantages in the host environment; on the other hand, the host government maximises the benefits generated from the MNE activities in the host country (Ozawa & Castello, 2001) by offering L-specific advantages for foreign MNEs at different stages of the country's IDP (Narula & Dunning, 2000). After the interaction, FDI-led augmentations of O_F -, O_H - and L_H -specific advantages are likely to occur. The benefits of MNE-government interaction are evidenced in the study by Zhang and Van Den Bulcke (1996) who concluded that the impressive development of the O- and I-specific advantages of Chinese firms, as well as the L-specific advantages of China during the period from 1979 to 1993 could be ascribed to government intervention.

Interactions between O_F and O_H Interactions between O-specific advantages of foreign MNE (O_F) and O-specific advantages of domestic firms (O_H) occur via inter-firm beneficial relationships between foreign MNE affiliates and domestic firms, for example, equity- (i.e., JVs) and non-equity-based linkages (i.e., other collaborative partnerships) with business partners in a host country. Both linkages have potential for

domestic firms to enhance knowledge exchange and technological competence (Narula & Dunning, 2010). Foreign MNE affiliates may also create indirect *spillover effects* due to their presence in a host industry (Cantwell & Mudambi, 2000; Marin & Bell, 2006; Jindra, Giroud & Scott-Kennel, 2009).

The O-specific advantages that foreign MNE affiliates transfer or diffuse to domestic firms include assets internalised from their parent company abroad, and managerial and technological O-specific advantages that the foreign MNE affiliates develop in a host country (Birkinshaw, 1996). First, the affiliate might have to satisfy and adapt to L-specific requirements which needs the affiliate to localise its proprietary management systems and technology. Second, the affiliate might be an acquisition that is based on foreign and local investments. This means that the affiliate has an inherent linkage locally and consequent spillover effects on related organisations. Third, the affiliate might be established to operate independently based on an MNE strategy, so it forms its own O-specific advantages in terms of management and technology by creating its own linkages with incumbent players in the host industry, and spreads spillover effects locally (Narula & Dunning, 2010).

Further, the O-specific advantages of foreign MNE affiliates with dual embeddedness are localised O_F-specific advantages. *Dual embeddedness* refers to the embeddedness of a foreign MNE affiliate within its own MNE (i.e., parent/sister affiliates), and within the host country environment through inter-firm linkages (Narula & Dunning, 2010). Dual embeddedness is said to be an ideal linkage form for a foreign MNE affiliate as it means that the affiliate links closely with both the MNE network and the host economy (Young & Tavares, 2004; Costa & Filippov, 2008), and that the affiliate's O-specific advantages are strategically location-bound and unique (Narula & Dunning, 2010).

However, the embeddedness of FDI into a host country does not occur immediately; it takes time to develop linkages and spillovers, relying on the dynamic interactions between MNE value-adding activities and the changing L-specific advantages in the host economy over time (Narula & Dunning, 2010). During this process, foreign MNE affiliates transfer and/or diffuse their O_F-specific advantages to their local collaborative partner firms, whilst accessing the O_H-specific advantages of their business

counterparts. Sequential FDI follows, as linkages and spillovers, O_F - and O_H -specific advantages, as well as L_H -specific advantages develop. This shows the significance of the *interaction IDP* (Narula & Dunning, 2010, p. 266) underlying economic development.

Interactions between O_H and L_H Interactions between the O-specific advantages (O_H) of local firms and the L-specific advantages (L_H) of the host environment are important for understanding the impact of FDI on the development of an industry. According to Narula and Dunning (2010), the most appropriate level for analysing foreign MNE effects on development should be the industry. Thus, in order to study the impact of FDI on the development of an industry, the O-specific advantages (O_H) of local firms in the industry, the L-specific advantages (L_H) of the host environment, that is, country and industry, as well as their interactive relationships need to be considered. First of all, from the perspective of IFDI, because local firms belong to the host country and industry, the O-specific advantages of local firms can be regarded as part of the L-specific advantages of the host country when foreign MNEs consider the investment environment. The extent of the development of the host country can facilitate or limit the development of local firms. In turn, the level of the upgrading of local firms can reflect the degree of the attractiveness of the investment environment (Dunning, 2001). Hence, the augmentation of the O-specific advantages of local firms (O_H) resulting from the transfer of foreign resources and capabilities via inter-firm linkages with foreign MNE affiliates contributes to the upgrading of the L-specific advantages of the host country (L_H).

For example, a country in the first stage of the IDP, has few L-specific advantages except the presence of natural resources. Thus, there are few local firms with O-specific advantages. When the country is in the second stage of the IDP, as its L-specific advantages grow, local firms are able to produce low-cost products based on natural resources. When the country moves to the third stage of the IDP, with increasing created-asset L-specific advantages and relatively sophisticated markets, its local firms are able to innovate production processes and differentiate products to cater for consumers' tastes. When the country develops to the fourth and fifth stages of the IDP, in accordance with its strong created-asset L-specific advantages, the O-specific

advantages of the local firms are strong enough to coordinate the network of MNEs internally and externally, as well as implement open innovation in various areas (Narula & Dunning, 2010).

Further, economic growth in earlier stages, to a large extent, depends on local industries' absorptive capacity to developed knowledge assets (Amsden, 1989; 2001; Lall, 1996). The absorptive capacity of local firms as a necessary condition for local firms to receive benefits from MNE activities was mentioned earlier. Local firms augment their O-specific advantages by learning, assimilating and adapting to foreign mature resources and knowledge. Learning, assimilation, adaptation and then innovation occur through the comprehensive interplay between a firm and its environment (Narula & Dunning, 2010). The environment includes first, in a broad sense, natural resources, social and culture context, infrastructure, institutional framework and industrial policy. Second, specifically, the environment can consist of complex interactions between firms in business networks (e.g., JV partners, a firm and its suppliers and distributors, and even a firm and its competitors), as well as the process through which knowledge flows are created and distributed (Narula & Dunning, 2010). Thus, the L-specific advantages of the host environment are essential for creating conditions for the establishment of the absorptive capacity of industries and local firms.

The IPD framework, at a macro (country) level, explains the relationship between FDI and economic development while the OLI paradigm, at a micro (firm) level, explains the relationship between FDI and a firm's development. This section has explained the interaction between the IDP framework and the OLI paradigm. A country at different economic development stages with corresponding L_H -specific advantages attracts IFDI with different kinds of O_F -specific advantages. In turn, the O_F -specific advantages of foreign MNEs influence the upgrading of the O_H -specific advantages of domestic firms while the O_H -specific advantages of local firms reflect the development level of the L_H -specific advantages of the country; the L_H -specific advantages of the country represent the sophistication of the country's economy. This dynamic interplay is driven by the interaction between the O_F - and O_H -specific advantages. Examining the interplay between the IDP framework and the OLI paradigm provides a way of understanding the broad patterns of interaction between foreign MNE affiliates in the host country.

However, this interplay does not explain the precise processes by which local firms interact with foreign MNE affiliates to upgrade their competencies. The LLL framework, as explained in the following section, is an important tool to help understand these processes.

2.5 The LLL framework

The LLL framework is important for understanding the augmentation process of the O-specific advantages of emerging market MNEs. This is particularly because the application of Dunning's OLI paradigm (Dunning, 1977; 1981b; 1988a; 1991; 1995; 2000; 2001) to emerging economies has been criticised since it has most often been used to explain the internationalisation of traditional MNEs from advanced economies, and MNEs from developing countries do not have the same level of O-specific advantages as traditional MNEs from developed countries (Amighini, Cozza, Giuliani, Rabellotti & Scalera, 2015; Goldstein, 2007; Mathews, 2002b; 2006a; Moghaddam, Sethi, Weber & Wu, 2014; Ramamurti, 2012). Mathews (2006b) and Boisot and Meyer (2008) argue that compared to traditional MNEs which focus on the exploitation of existing advantages, emerging MNEs are more likely to aim at the acquisition of new capabilities and overcome their O-specific disadvantages. This thesis intends to look at the augmentation process of the O-specific advantages of emerging market firms; thus, the LLL framework sheds light on the approach for the investigation. In line with the focus of the thesis, the LLL framework is also employed to consider this process.

Mathews (2002a; 2002b; 2006a; 2006b; 2017) proposed the Linkage, Leverage and Learning (LLL) framework. He explained that through FDI, newcomer and latecomer MNEs made linkages with local firms in a host industry overseas, and leveraged with local competitors to establish partnerships, whilst learning from local firms. Based on a resource-based view grounded in international business theory (Peng, 2001), the LLL framework includes three components: linkage, leverage and learning (2002a; 2002b; 2006a; 2006b; 2017). Firstly, joint ventures and other collaborative partnerships with foreign firms, as entry modes, are two forms of linkage and are widely-preferred by MNEs from developing countries when they invest abroad compared with wholly-owned affiliates (Mathews, 2002b; Wells, 1998; Yeganeh, 2016) because these are sources of new assets (Mathews, 2002b; 2006a; Yeganeh, 2016). Further, after

entering foreign markets investing firms establish forward and backward linkages with downstream and upstream firms in the host countries while they operate their business (Li et al., 2016).

Secondly, leverage means newcomer and latecomer MNEs gain incumbent advantages by imitating, transferring, or substituting their own advantages (Mathews, 2002b; 2006a; 2017; Yeganeh, 2016). Leverage emphasises the advantages per se and the potential of leveraging the advantages, as well as the approach of removing the obstacles to advantage augmentation (Mathews, 2006a). Through leverage, emerging market MNEs can capture opportunities to quickly build capabilities for overcoming resource barriers in developed countries (Mathews, 2002a; Thite, Wilkinson, Budhwar & Mathews, 2016).

Thirdly, learning is defined as repeated linkage and leverage activities by which newcomer and latecomer MNEs equip themselves with dynamic capabilities to compete with incumbent firms (Mathews, 2002b; 2006a; 2017). Compared to “learning” in a normal sense which purely refers to “learn” (behaviour) and “learning” (outcome), “Learning” within the LLL framework has two characteristics. It is an action, namely the repeated application of linkage and leverage (Ge & Ding, 2008); it is also a process whereby emerging market MNEs acquire more advanced resources with more comprehensive capabilities (Mathews, 2002a; Tan & Mathews, 2015; Thite et al., 2016). Learning in the LLL-specific context emphasises iteration and dynamics.

The LLL framework can be regarded as a strategic instrument for facilitating a firm's international expansion (Mathews, 2006a). First, the LLL framework asserts that in order to go global, firms from emerging markets can exert their international connections to overcome their shortage of resources in foreign markets (Mathews, 2006a; Luo & Wang, 2012). Second, the LLL framework is outward-oriented and resource-seeking (Mathews, 2006a). For example, Chinese firms, by forming JVs or other collaborative partnerships with MNEs overseas, access new resources and strengthen their O-specific advantages; then, through the international networks of their business partners, the Chinese firms expand internationally to acquire further new assets (Mathews, 2006a; Tiwari, Sen & Shaik, 2016). Third, by repeating the processes of

linking and leveraging, the Chinese firms learn how to overcome the liability of lateness (Li, 2007; Luo & Wang, 2012; Mathews, 2002a; 2006a) or newness (Tiwari et al., 2016), the liability of foreignness (Hymer, 1976; Tiwari et al., 2016), the liability of country of origin (Thite et al., 2016) and the liability of third-world multinationals (Tiwari et al., 2016). Overall, these liabilities are primarily related to poor branding, insufficient resources, less advanced technology and a lack of economics of scale (Tiwari et al., 2016). In particular, the liability of the country of origin, in the case of MNEs from emerging economies, includes the home country-specific disadvantages and the home country's weak position in the global economy (Chang, Mellahi & Wilkinson, 2009).

The LLL framework is complementary to the OLI paradigm, and focuses on globalisation strategies (Mathews, 2006b). It emphasises that through international expansion, emerging market MNEs aim to upgrade their competitive advantages including acquiring new resources, customers and capabilities that cannot be found in their home country, as well as creating a strategic position via external activities, that is linkage, leverage and learning (Gaffney, Cooper, Kedia & Clampit, 2014; Li, 2007; Mathews, 2002b; 2006a; Narula, 2006). In these ways, the LLL framework complements and enriches the OLI paradigm (Dunning, 1981b; 1988a; 1995) which focuses more on the traditional experience of MNE internationalisation that exploits proprietary O-specific advantages by internalising external markets (Dunning, 2006; Gullie'n & Garcia-Canal, 2009; Li, 2007). The LLL framework helps emerging market MNEs reduce uncertainty due to internationalisation (Yeganeh, 2016).

However, Dunning (2000) asserted that MNEs from developing countries, to access advanced markets, had to possess unique and specific competences, and their internationalisation is regarded as a process where existing advantages are exploited and new advantages are augmented. For example, Chinese OFDI is said to be a typical case to apply this approach as a FDI strategy. On the one hand, Chinese MNEs have the funding ability to acquire companies overseas and a natural access to the massive Chinese market (Dunning, 2006). The international acquisition is the process whereby they leverage their own O-specific advantages (Rui & Yip, 2008). On the other hand, they gain new strategic assets by engaging in international expansion through practical

learning from cross-border cooperative alliances such as joint ventures and mergers and acquisitions for reducing risk (Mathews, 2006a). Studies by Luo and Tung (2007), as well as Rui and Yip (2008) also support this proposition.

The LLL framework focuses on an internationalisation strategy for emerging market MNEs to upgrade their O-specific advantages by accessing new resources in a host country through linkage-leverage-learning activities with foreign local firms. This thesis proposes to apply the LLL concept to the O-specific advantage augmentation of emerging market firms in the home country, namely the linkage-leverage-learning activities with inward investing foreign affiliates. The “Linkage”, in brief, suggests emerging market firms forming equity- (i.e., JVs) or non-equity-based (i.e., other collaborative partnerships) linkages with foreign affiliates. However, the augmentation of O-specific advantage does not simply mean quantity increase but more significant quality upgrading. The LLL framework has not sufficiently explicated the process whereby the O-specific advantages of emerging market firms are augmented. In other words, there is insufficient elucidation of how the O-specific advantage augmentation happens and of the specifics of the progression from “Leverage” to “Learning”. In order to address this gap, this thesis asks *how* emerging market firms develop their own advantages based on foreign resources.

This section has established the components of the LLL framework. The following two sections will examine different types of linkages between foreign affiliates and domestic firms (section 2.6) and further unpack the idea of leverage (section 2.7).

2.6 Inter-firm linkages between foreign MNEs and domestic firms

Foreign MNEs, by building international joint ventures (IJV) and wholly foreign-owned affiliates (WFO) in a host country, cooperate with and compete against local business partners while establishing and operating business. The cooperation and competition between the foreign MNE affiliates and local firms create various inter-firm linkages and allocate resources (Dunning, 1995; Gulati, 1995). The inter-firm linkages include equity international joint ventures (IJVs) and non-equity-based collaborative partnerships between foreign MNE affiliates and domestic partner firms. These

linkages, along with an explanation of the subsequent transfer of foreign O-specific advantages to local firms, will be the focus of discussion in this section.

2.6.1 International joint venture (IJV)

An international joint venture (IJV) is a form of collaborative but equity-based venture through an inter-firm partnership. An IJV aims to tap into a foreign market, share and integrate resources, as well as split costs and risks (Talay & Cavusgil, 2009). According to Rugman & Li (2007), IJVs in China have both positive and negative impacts on their Chinese investing firms (Rugman & Li, 2007).

Chinese firms improve their O-specific advantages by collaborating with foreign firms in international joint ventures (IJVs) (Rugman & Li, 2007). Studies suggest that compared to non-equity-based partnerships, equity-based JVs facilitate greater knowledge and technical capability transfer (Kogut, 1988; Mowery, Oxley & Silverman, 1996). For instance, organisationally embedded knowledge is hard to acquire through transactional relationships (viz. backward, forward, contractual and collaborative linkages) but can be more readily transferred between investor firms within JVs (Kogut, 1988). This is because equity ownership authorises JV partners to manage and control the JV's assets and resources, which enables partners to acquire a counterpart's tacit knowledge that cannot be precisely defined in contracts (Mowery et al., 1996). Tacit knowledge could be marketing skills (Lane, Salk & Lyles, 2001; Shenkar & Li, 1999), corporate culture (Harrigan, 1984) and organisational knowledge such as collaborative experience, coordinative skills and managerial know-how (Black & Boal, 1994; Hall, 1992), which are implicit and embedded in organisations (Zander & Kogut, 1995). Thus, JV is regarded as the most conducive for accessing and transferring organisationally-embedded resources (Hennart & Reddey, 1997; Kogut & Zander, 1993; Kogut, 1988; Tihanyi & Roath, 2002).

Furthermore, IJVs positively influence the enhancement of indigenous partner firms' capabilities (Scott-Kennel, 2004a; 2004b). IJVs provide indigenous partners with convenient access to foreign investors' capital, knowledge, technology, management (Batra, 1997; Child & Markoczy, 1993; Dhanaraj, Lyles, Steensma & Tihanyi, 2004; Hisrich & Szirmai, 1993; Inkpen, 1998; 2000; Inkpen & Beamish, 1997; Kim, 1996;

Lane et al., 2001; Lyles & Salk, 2006; Markoczy, 1993; Kogut & Zander, 1993; Molina, Llorens-Montes & Ruiz-Moreno, 2007; Si & Bruton, 1999; Steensma & Lyles, 2000; Tsang, Tri & Erramilli, 2004; Wahab, Abdullah, Uli & Rose, 2009; Yan & Gray, 1994) and modern business operations (Molina et al., 2007; Si & Bruton, 1999; Springer & Czinkota, 1999; Yan & Gray, 1994). Additionally, IJVs provide indigenous partners with access to overseas markets by leveraging foreign partners' market expertise and networks (Lane et al., 2001; Molina et al., 2007).

In order to further adapt to the host environment, and to deepen local embeddedness, foreign investors make more contribution in terms of initial capital, technology and the management of IJVs to get a higher equity share (Fagre & Wells, 1982; Lane et al., 2001; Lyles & Salk, 2006). Consequently, as a contribution of FDI to IJVs on entry and the augmentation of IJVs' O-specific advantages over time, JV domestic partners, through the IJV activities, upgrade their O-specific advantages including expertise of strategic arrangement in international management, technology, management skills, marketing-oriented approach and capital (Yan, 2000).

As for the negative impact of IJVs on the Chinese local partner firms, some studies argue that because the local Chinese partner firms tend to rely on the significant technological contribution of the foreign partner firms, IJVs, to some extent, conversely limit the innovative activities and capacity development of the Chinese partners (Gao, 2004; Li & Zhou, 2008).

Applying the notion of O- and I-specific advantages, quasi-internalisation, as well as equity-based linkages between foreign and domestic firms to this thesis, it is expected that foreign MNE affiliates would share and develop selected O-specific advantages, resources and capabilities with their IJV partners.

2.6.2 Non-equity-based inter-firm linkages

Non-equity inter-firm linkages include direct and indirect relationships between firms (UNCTAD, 2002) and can act as transmission mechanisms that afford resource and capability upgrading at the micro/firm level (Scott-Kennel & Enderwick, 2005).

Direct linkages include backward linkages with suppliers, forward linkages with customers, and collaborative linkages with alliance partners (Scott-Kennel & Enderwick, 2005). MNE affiliates form direct linkages with domestic firms in order to surmount some of the deficiencies of simple transactional exchanges. For example, direct collaborative relationships with local suppliers enable foreign affiliates to solve problems and uncertainties concerning techniques and delivery, coordinate production capacities in the future, and share revenue (Lall, 1980).

Firstly, **backward linkages** occur when domestic firms act as suppliers to provide goods and services. When foreign affiliates subcontract domestic firms, foreign resources that are diffused and transferred from the former help upgrade the O-specific advantages of the latter (UNCTAD, 2002; Scott-Kennel & Enderwick, 2005). For example, during cooperation and interaction, in order to ensure product quality, affiliates provide their domestic suppliers or subcontractors with information, technology and advanced production process to help them develop their production capabilities (Barrow & Hall, 1995; Brown, 1998; Crone & Roper, 2001; Dunning, 1998a; Giroud, 2003; Narula & Marin, 2003; Papanastassiou & Pearce, 1999; Raines, Turok & Brown, 2001; Scott-Kennel & Enderwick, 2005; UNCTAD, 2002; Wong, 1992).

Also, a number of studies show that to achieve high production efficiency, foreign affiliates provide local suppliers with resources and support associated with design, procurement, tooling, training, quality and efficiency control, and marketing information (Driffield, Munday & Roberts, 2002; Dunning, 1993; Lall, 1980; Munday, Morris & Wilkinson, 1995; Poon, 1996; Scott-Kennel, 2007; Wong, 1992). This is supported by studies which show that resources and assistance from foreign affiliates via backward linkages facilitate indigenous suppliers' development (Crone & Roper, 2001; Giroud, 2003; Halbach, 1989; Ivarsson & Alvstam, 2005; Scott-Kennel, 2004a; 2004b; UNCTAD, 2001; Wong, 1992).

Further, MNE affiliates can have a significant influence on local suppliers in a host country and provide assistance to them in terms of information, technology, finance, procurement, location, managerial and organisational knowledge, and pricing (Dunning

& Lundan, 2008). For example, an MNE affiliate in agribusiness, may give advice on growing techniques, new crops, quality standards, land option and harvest scheduling, as well as financial help with seedlings, equipment, labour and irrigation, to its local suppliers of plantation crops and local suppliers who engaged in contractual agreements (Dunning & Lundan, 2008).

Secondly, **forward linkages** allow foreign affiliates to access existing distribution channels through local agents and work more closely with customers. By providing after-service to corporate customers, affiliates transfer resources and knowledge regarding product usage, marketing skills and organisational expertise to collaborative domestic firms (Rodríguez-Clare, 1996; Scott-Kennel, 2004b; Scott-Kennel & Enderwick, 2005). There are three main kinds of forward linkages that MNE affiliates form with their customers: a) the secondary processing of raw materials and agricultural commodities for value-added activities, b) linkages with industrial buyers, and c) linkages with marketing outlets (Dunning & Lundan, 2008).

Thirdly, **collaborative linkages** between foreign affiliates and domestic firms aim at mutual development with considerations of cost, timing and competition, despite the risks such as losing O-specific advantages to rivals (Cantwell & Narula, 2001). As opposed to equity-based collaborative partnerships (JVs), non-equity-based collaborative linkages include linkages with suppliers, marketing firms, R&D providers, labour service companies, subcontractors and finance providers (Chen, Chen & Ku, 2004), and other forms of alliance agreements (Scott-Kennel, 2007). Collaborative agreements are non-equity based strategic alliances related to any area from technology development and management to marketing (García-Canal, Duarte, Criado & Llaneza, 2002). Studies suggest that by forming inter-firm collaboration, alliance partner firms exchange resources and upgrade technological capabilities (Cohen & Levinthal, 1990; Grant & Baden-Fuller, 1995; Hamel, 1991; Hamel, Doz & Prahalad, 1989; Kogut, 1988; Nakamura, Shaver & Yeung, 1996; Scott-Kennel, 2004a; 2004b; Scott-Kennel & Enderwick, 2004). Compared to transactional backward and forward linkages, collaborative linkages provide more potential for joint development of foreign affiliates and domestic partner firms in terms of resources and O-specific advantages (Scott-Kennel & Enderwick, 2005).

Overall, direct linkages facilitate resource transfer from MNE affiliates to local firms, which results in the upgrading of the latter (Gentile-Lüdecke & Giroud, 2012; Jindra et al., 2009). Wong (1992) and Poon (1996) agree that assistance and resources regarding technologies, techniques, product standards, market and equipment information can be transferred via inter-firm direct linkages, and as a result, facilitate the improvement of the production quality of domestic firms. Likewise, Turok (1993) concluded that direct linkages help local firms upgrade their productivity and competitive advantages. Studies by Scott-Kennel and Enderwick (2004; 2005) demonstrate that foreign O-specific advantages and resources can be quasi-internalised by local alliance firms via non-equity-based inter-firm partnerships. Further, Forsgren, Holm and Johanson (2005) stressed the importance of inter-firm direct linkages for knowledge transfer, knowledge adaptation and consequent knowledge development, because inter-firm shared values are beneficial for firm performance and communication.

By contrast, *indirect linkages* occur through industry *spillovers* in terms of technology, knowledge and productivity. The transmission of technology, knowledge and productivity associated with IFDI first occurs from MNE parent companies to affiliates, then from affiliates to firms in the local economy (Driffield, Love & Menghinello, 2010). For example, domestic firms learn from and imitate foreign affiliates through the demonstration effects of foreign affiliates' activities (Zhang, 2001; Bengoa & Sanchez-Robles, 2003). Competition between domestic firms and foreign affiliates provides impetus to domestic firms to improve their performance, and these forms of influence are termed as competitive effects (Markusen & Venables, 1999). Another spillover effect occurs when former employees take the knowledge and skills developed in the affiliates to their new jobs; this resource transmission is caused by worker mobility (Buckley, 2004). Hence, the potential of spillover effects depends on three factors: MNE strategy, MNE affiliate's features and a local firm's needs (Giroud, 2012). However, indirect linkages, namely spillovers are not the focus of the thesis. To recap, this thesis focuses on inter-firm collaborative partnerships, namely direct, equity- and non-equity-based linkages.

This thesis proposes to study inter-firm linkages to explore how resources and capabilities are transferred from foreign affiliates to domestic firms, and consequently,

upgrade the O-specific advantages of domestic firms. Applying the notions of O- and I-specific advantages, in particular quasi-internalisation, as well as linkages between IJVs/WFOs and domestic firms to this thesis, it may be expected that IJVs/WFOs share and develop select resources and capabilities with their domestic partner firms. Section 2.6 has shown the importance of direct linkages in upgrading the O-specific advantages, resources and capabilities of local firms. Also important is the concept of leverage in the LLL framework. Types of leverage will be discussed in the next section.

2.7 Resource leverage through linkages

The focus of this thesis is the interaction between foreign affiliates and domestic firms, namely linkage-leverage-learning activities, specifically the home effect of these activities, that is, the upgrading of home country firms. In order to better understand the leverage process, this section revisits prior empirical studies on the transfer and diffusion of resources and capabilities from foreign affiliates to domestic firms in emerging markets via inter-firm direct linkages. These studies and findings are discussed in six groups as follows.

First, studies showed that foreign and local partner firms in IJVs shared and acquired new knowledge with and from each other (Hult, 1998; Morgan & Hunt, 1994; Si & Bruton, 1999). When knowledge shared between IJV partners involved R&D, knowledge transfer from foreign affiliates to indigenous partner firms facilitated the improvement of the latter's innovation capability (Tey & Idris, 2012). Some studies also showed that technology had been transferred and shared back and forth (Scott-Kennel, 2004a; Scott-Kennel & Saittakari, 2020; Scott-Kennel & Von Batenburg, 2012).

Second, some scholars examined the adoption of resources from foreign MNEs by domestic firms in emerging economies. For example, studies by Håkansson and Johanson (1988), Halbach (1989), Holmlund and Kock (1995) and Wong (1991) found that the two most frequently adopted resources from foreign MNEs by indigenous suppliers in the host country were knowledge and technology. Their studies indicated that the main strategies for enabling indigenous suppliers in the host country adopting foreign resources were training, providing product standards, and monitoring the production process. This finding was in line with other studies. For example, Pangestu

(1991) also found that training indigenous employees and suppliers was a way of positively transferring knowledge. Studies by Lee (1991) and Sivalingam and Yong (1993) showed that foreign MNEs preferred to transfer important technology by engaging expatriates, consultants and experts in on-site training. Chen's (1994) study concluded that in developing countries, foreign MNEs diffused technology to domestic firms by training indigenous employees with techniques and management expertise, and the adoption rate of new technology by domestic firms tended to be very high. A study conducted by Fleury, Carvalho and Fleury (1994) showed that with the transfer of management expertise from foreign MNEs, indigenous suppliers adopted management reshuffle. The adoption of resources is a process whereby local firms choose to accept foreign resources and capabilities.

Third, empirical studies showed that local firms in emerging markets directly applied foreign resources and capabilities provided by foreign affiliates without changes, in order to meet the latter's quality standards. For example, by establishing contractual agreements, most foreign investors provided technical support and some also offered knowledge about market trends, management, organisation and production processes to their indigenous OEMs in emerging economies, in order to audit quality (Halbach, 1989; PA Cambridge Economic Consultants, 1995; Tan, 1990; Wong, 1992). Domestic suppliers in developing countries also applied resources transferred from foreign affiliates that involved technology, finance, purchase, marketing, sales (Duanmu & Fai, 2007; Giroud, 2007; Liang, 2017; Spencer, 2008), planning and implementation (Giroud, 2000).

Fourth, studies by Forsgren et al. (2005) focused on resource adaptation. They investigated subsidiary power in embedded MNEs by measuring the degree of adaptation that receiver subsidiaries were willing to make when product technology and production technology were transferred from sender subsidiaries. Resource adaptation is positively influenced by inter-firm shared values (Forsgren et al., 2005). The "adaptation" requires receiver firms to adjust themselves or new resources so as to fit local situations. Compared to "adoption" and "application" which keep the original status of the acquisitions, "adaptation" starts to act with modest changes.

Fifth, studies by Tey and Idris looked at resource innovation. One of their studies (2011) proved the importance of knowledge transfer to IJV innovation performance. Another one of their studies (2012) examined innovation resulting from knowledge transfer within IJV partners. Innovation is a process whereby firms introduce new ideas and ways to amend the knowledge and resources they acquire. It is a step forward from just accepting to improving the original status of knowledge and resources.

Sixth, resource transfer facilitated the joint development of foreign and domestic firms, in terms of technology, production, products and quality. For instance, in a contractual or collaborative partnership, foreign and domestic firms may transfer selected complementary expertise to jointly develop new skills, effective processes, creative products and better quality (Duanmu & Fai, 2007; Giroud, 2007; Jindra et al., 2009; Scott-Kennel, 2004a; 2004b; Scott-Kennel & Enderwick, 2005; Spencer, 2008). Foreign and domestic firms as alliance partners achieved joint development on technology and organisational learning (Bell & Marin, 2004; Chen & Chen, 1998; Chen et al., 2004; Enright, 2000; Håkansson & Johanson, 1993; Ivarsson, 2002; Scott-Kennel, 2004b; Scott-Kennel & Enderwick, 2004).

As can be seen, scholars have investigated six types of processes by which local firms transfer resources and capabilities from foreign affiliates in the home country. These transfer processes have included sharing and acquisition, adoption, application, adaptation, innovation and joint development, and have been individually examined in earlier studies. However, there are no studies that have linked them together as an entire leverage process to examine the relationship between each phase of the leverage process, and the overall outcome of the entire leverage process. These transfer processes provide references to theoretical constructs for this study to map out a holistic picture of the process of emerging market firms leveraging resources and capabilities from foreign collaborative partners.

2.8 The application of the IDP framework, the OLI paradigm, the LLL framework and linkages to the Chinese wine industry

As discussed, the OLI configuration plays an important role at different IDP stages of a country's development. First, in the earlier stages, L-specific advantages are primarily

influenced by government, so it is important to build political, economic and structural environments (Dunning & Narula, 1996; Scott-Kennel & Enderwick, 2005). A country's government policy can help develop L-specific advantages, such as infrastructure, education and institutions, rendering it attractive to different types of IFDI, which consequently helps shape its economic development trajectory (Buckley & Castro, 1998).

Second, as the country advances through the IDP stages, the interactions/linkages between the O-specific advantages of domestic firms and foreign affiliates, particularly internationally transferrable created assets such as non-equity-based resources including technology and knowledge, become a driver (Scott-Kennel & Enderwick, 2005). The development/augmentation of local O-specific advantages results from the mutual reinforcement between the O-specific advantages of foreign affiliates and domestic firms.

Third, there is a mutually reinforcing relationship between L_H - and O_H -specific advantages (Dunning & Narula, 1996; Scott-Kennel & Enderwick, 2005). The upgrading of O_H -specific advantages contributes to local L_H -specific advantages and attracts more quality and suitable IFDI accompanied by O_F -specific advantages which through local linkage and leverage further improves local O_H -specific advantages and then, again, promotes local L_H -specific advantages. This is a potentially continuous cycle of improvement process through the interaction of O_H , O_F , L_H and I_H elements.

In terms of internalisation strategy for the augmentation of O-specific advantages, first of all, with respect to MNEs augmenting their O-specific advantages through their affiliates offshore, studies show that firms seek skills, technologies and resources across boundaries through strategic alliances and networks (Håkansson & Johanson, 1993; Ivarsson, 1999; Enright, 2000). Well-developed MNEs develop their affiliate-specific O-specific advantages abroad by absorbing foreign L-specific advantages via linkages with domestic firms in a host country (Scott-Kennel & Enderwick, 2005). Moreover, in relation to domestic firms in a host country upgrading their O-specific advantages via linkages with foreign affiliates, the literature suggests that MNE activities with

indigenous firms might externally facilitate the development of these indigenous firms (Narula & Sadowski, 2002; Cantwell & Piscitello, 2002).

From the perspective of the LLL framework, if applying the linkage-leverage-learning concept in a home country-context, the three “Ls” enable emerging marketing firms to enhance their O-specific advantages by connecting with foreign affiliates in the home country without crossing borders. Domestic firms firstly, form either equity- (i.e., JVs) or non-equity-based (i.e., other collaborative partnerships) linkages with foreign affiliates; then, access new resources and capabilities from foreign partner firms; and thirdly, proceed to another round of linkage and leverage activities by practising the previous learnings.

Domestic firms benefit from inter-firm direct linkages with foreign affiliates because such linkages provide a channel of resource transfer (Girma, Görg & Pisu, 2004; Günther, 2005; Li & Yeung, 1999; Scott-Kennel, 2004b; 2007; UNCTAD, 1995; 1999). MNE affiliates improve their efficiencies in the host country and meanwhile, help develop the resources and capabilities of domestic firms through diffusing knowledge (Aya, 2004; Giroud, 2003; 2007; Giroud & Scott-Kennel, 2009; Lall, 1980; Saggi, 2002; Scott-Kennel, 2004b; Wang, Liu & Li, 2009) and transferring resources (Chen et al., 2004; Günther, 2005; Scott-Kennel, 2004b; 2007). Consequently, the linkages promote the mutual development of foreign and domestic firms in terms of resources and capabilities (Crone & Roper, 2001; Driffield et al., 2002; Duanmu & Fai, 2007; Ivarsson, 2002; Murray, Kotabe & Zhou, 2004; Scott-Kennel, 2004b; 2007), and ultimately, the upgrading of the local industry (Driffield et al., 2002; Giroud, 2000; Rodríguez-Clare, 1996; UNCTAD, 2001).

When considering the application of the IDP framework, the OLI paradigm, the LLL framework and linkages to the Chinese wine industry from the viewpoint of domestic firms, a number of inferences can be made. The OLI configuration is reflected in the interactions among the L-specific advantages of both China and the Chinese wine industry, O-specific advantages augmentation of domestic firms and foreign-owned affiliates, and quasi-internalisation of foreign O-specific advantages. The linkage-leverage-learning concept can be seen in linkage formations (including

Sino-foreign JVs and transactional partnerships between foreign affiliates and domestic suppliers/distributors/contractual firms/strategic alliance partner firms), leverage and learning strategies of domestic firms for foreign resources and capabilities. In other words, on China's IDP trajectory, IFDI plays a catalyst role in the development of O-specific advantages of domestic firms in the Chinese wine industry via equity- and non-equity-based linkages between foreign and domestic firms. The types and intensity of linkage formation are determined by existing levels of domestic capability (Giroud & Mirza, 2004).

While the IDP framework, the OLI paradigm, the LLL framework and linkages can provide insight into the phenomenon of emerging market firms leveraging O-specific advantages, resources and capabilities from foreign affiliates in the home country, they don't fully explain the specifics of the process by which this happens. This is the purpose of the thesis, as discussed in the following section.

2.9 Research gap and research questions

Based on a comprehensive review of the relevant literature, this section highlights the research gap and states the research questions that arise from the literature and the identification of the research gap. These questions shape the direction of this thesis.

At a macro level, the IDP framework shows that the IFDI by foreign MNEs has a positive effect on the development of a country through encouraging, over time, OFDI by local firms. The change in a country's IFDI depends on MNE strategy and government policy. MNE strategy relates to MNE's investment motives while government policy influences the investment environment of the host country. The interplay between MNE strategy and government policy influences the OLI configuration which might lead to changes in the country's IFDI and OFDI (Dunning, 1981a; 1986; Dunning & Narula, 1996; Narula, 1996; Narula & Dunning, 2000; 2010).

In general, the IDP framework is a macro/country-level concept regarding the impact of FDI on an economy. The possible outcome that the IDP framework suggests for economic process is the upgrading of a country's economy, along with an economic restructuring of the country. As a country's economy develops, the OLI configuration

changes. The OLI paradigm is a micro/firm-level concept, demonstrating that IFDI brings in unique Ownership-specific advantages (O) of a bundle of assets. Also, it gives rise to effects on foreign affiliates and local firms under Location-specific factors (L) in the host industry. During the process, the O-specific advantages of MNEs are transferred or disseminated (I) to foreign-owned affiliates and/or local firms; and eventually local firms might become outward investors as their O-specific advantages are augmented. This thesis seeks to draw on the IDP framework and the OLI paradigm to help understand the types and intensity of foreign affiliate-domestic firm interaction and the extent to which the interaction results in the upgrading of the host industry firms' O-specific advantages.

Specifically, the focus of this study is the impact of IFDI at the firm level, namely, the O-specific advantage augmentation of domestic firms occurring through interactions between foreign affiliates and domestic firms. Thus, there is a need to consider theoretical constructs from the OLI paradigm and the LLL framework to understand both MNE and domestic firm perspectives. The OLI paradigm provides an instrument to examine the determinants of outward investment decisions of developed MNEs, while the LLL framework offers an internationalisation strategy for emerging market MNEs to access new resources overseas. However, these two frameworks alone do not sufficiently explain how the process of upgrading occurs in the home country with local firms (viz. "Black Box"). This limitation arises because the OLI paradigm (Dunning, 1977; 1981b; 1988a; 1991; 1995; 2000; 2001) and the LLL framework (Mathews, 2006a; 2017) are outward-oriented. That is to say, they both focus on MNEs investing overseas as the object of research rather than focussing on domestic firms doing business with inward foreign investors in domestic markets. The reasons for this are explained below.

First, the OLI paradigm is utilised primarily by large developed MNEs to assess where and why they would undertake foreign investment (Dunning, 1977; 1981b; 1988a; 1991; 1995; 2000; 2001). Thus, typically it is used to inform strategic choices by developed MNEs regarding foreign investment. However, this thesis draws on the OLI paradigm from a developmental perspective, as the OLI paradigm shows that foreign MNEs invest in emerging markets with vast advantages and that local firms benefit

from IFDI and upgrade through linking with foreign affiliates. This thesis utilises the OLI paradigm to inquire as to how a combination of factors including the L-specific advantages of the home country (L_H), the O-specific advantages of foreign affiliates (O_F), the O-specific advantages of domestic firms (O_H), the I-specific advantages of foreign affiliates (I_F), quasi-internalisation (quasi- I_F), and the absorptive capability of domestic firms, interact with each other, and in particular, how the O_F are internalised or quasi-internalised by domestic firms.

Second, the LLL framework, as an accelerated internationalisation strategy, is employed to examine the outward process of internationalisation by emerging market firms (Mathews, 2006a; 2017). The LLL framework not only looks at transaction and knowledge transfer; it goes further by looking at linkage, leverage and learning. Linkage can be equity or non-equity, leverage refers to accessing new resources from foreign firms in overseas markets, and learning represents repeated linkage and leverage activities as a means of firm upgrading (Mathews, 2006a; 2017). Hence, the LLL framework is useful for investigating resource leverage activities through multiple linkages. However, the LLL framework does not offer sufficient insight into the specifics of the process whereby domestic firms are upgraded in their own home countries as a result of interaction with foreign firms. To attain a greater understanding of the process of building the home firm's resources and capabilities, this thesis will apply the linkage-leverage-learning concept in the home country as well as look more closely at the process of leverage, to refine and articulate a more precise understanding of the upgrading process of local firms.

Correspondingly, this thesis addresses the theoretical gap that *neither the OLI paradigm nor the LLL framework explains the specifics of the process whereby domestic firm upgrading occurs via linkages with foreign affiliates*. This gap is addressed by applying the OLI paradigm and the LLL framework in the home context, to better understand how local firms upgrade their resources and capabilities. In particular, this thesis seeks to contribute to a richer perspective of "Leverage", and the research lens of the thesis is focused on interactions between a group of firms in an emerging economy industry rather than on individual firms. The steps that this thesis follows in order to address the theoretical gap are summarised below.

Firstly, by employing the OLI paradigm, the thesis analyses the catalyst role of IFDI during the process whereby a firm upgrades its O-specific advantages. MNEs with rich resources and international experience establish affiliates in a host country. By exploiting their prior vast resources, foreign affiliates internalise international production to take advantage of L-specific advantages (L) (Dunning, 1981a; 1986; Dunning & Narula, 1996; Narula, 1996; Narula & Dunning, 2000; 2010). During the value-adding activities undertaken in the host country, O-specific advantages of foreign parent companies (O) as transferred to the affiliate through IFDI, are then internalised or quasi-internalised by local partner firms (Scott-Kennel & Enderwick, 2005). Specifically, internalisation (I) occurs from the overseas parent company to the foreign affiliate, then quasi-internalisation (quasi-I) occurs via equity-based inter-firm linkages (e.g., JVs), non-equity-based inter-firm direct linkages (e.g., backward, forward, contractual and collaborative linkages) and non-equity-based inter-firm indirect linkages (e.g., demonstration, competition and worker mobility) (Scott-Kennel & Enderwick, 2005). Consequently, domestic firms upgrade their O-specific advantages through a series of interactions with foreign affiliates.

Secondly, the LLL concept is applied in a home-country context, that is, IFDI into emerging market industry rather than OFDI of emerging market firms. The transfer of foreign competence via direct equity- (i.e., JVs) and non-equity-based (i.e., other collaborative partnerships) inter-firm linkages can be seen as a mechanism utilised by local firms to close the distance between indigenous and international resources and capabilities (Mathews, 2006a; 2017). In order to accumulate experience and improve capability overtime, local firms exercise the Learning activity, namely, repeatedly engaging in linkage and leverage activities in the home country. Thus, the first three research questions for this thesis are proposed:

RQ1. What O-specific advantages, resources and capabilities do foreign MNEs contribute through linkages with domestic firms in the Chinese wine industry on entry?

RQ2. How do foreign MNEs contribute to the augmentation of the O-specific advantage, resources and capabilities of domestic firms in the Chinese wine industry?

RQ3. What O-specific advantages, resources and capabilities contributed by foreign MNEs through linkages with domestic firms in the Chinese wine industry are developed over time?

These three research questions examine the impact of IFDI on O-specific advantage at the firm level, first on entry of foreign affiliates into the Chinese wine industry, then overtime. RQ1 seeks to identify different O-specific advantages, resources and capabilities that IFDI brings into the Chinese wine industry via equity- and non-equity-based linkages. RQ2 is process-oriented and aims to examine the leverage process whereby local firms in the Chinese wine industry utilise resources and capabilities associated with IFDI for organisational upgrading. RQ3 focuses on the development of foreign O-specific advantages, resources and capabilities transferred to local Chinese firms over time, and seeks empirical support for understanding the leverage process (see RQ2) through the application of the LLL framework in the home-country context at the firm level. In order to examine the impact of IFDI on the Chinese wine industry as a whole, one further research question is put forward:

RQ4. What is the impact of IFDI on the development of the Chinese wine industry?

RQ4 is a broad research question. Its purpose is not simply just to report on the impact of IFDI generally, but to examine the impact of IFDI occurring through the linkages and concomitant interactions between domestic and foreign firms.

Since the 1980s, the contemporary Chinese wine industry has achieved remarkable results worldwide in terms of economic scale and wine product quality. In reviewing the development trajectory of the Chinese wine industry, it is apparent that there has always been an element of IFDI, both historically and currently. Rapid growth in the wine industry in China has yet to be matched by academic research on the impact of FDI on local firms. Thus, this thesis seeks to evaluate how the interaction between local and

foreign firms contributes to the upgrading of local firms' O-specific advantages, resources and capabilities in the Chinese wine industry and ultimately, the whole Chinese wine industry.

2.10 Conclusion

The theoretical understanding that informs this thesis has a number of elements. The IDP framework suggests that FDI facilitates the development of an economy and industry (Dunning 1981a; 1986; Dunning & Narula, 1996; Narula, 1996; Narula & Dunning, 2000; 2010). The OLI paradigm elucidates the O-specific advantages of foreign MNEs and host country firms, L-specific advantages of the host country, and I-specific advantages of foreign MNEs, as the determinants of FDI entry mode (Dunning, 1977; 1981b; 1988a; 1991; 1995; 2000; 2001). In a host environment, with IFDI activities, foreign MNEs build collaborative relationships (viz. inter-firm linkages) with competitors horizontally and various players from upstream to downstream of the supplier chain vertically. FDI entry mode decides the pattern and intensity of inter-firm linkages. Because inter-firm linkages play an inevitable role in transferring O-specific advantages from foreign affiliates to domestic firms, it is understood that foreign MNEs via equity- and non-equity-based inter-firm linkages transfer select resources and capabilities which consequently benefit domestic firm upgrading. This is from the viewpoint of foreign MNEs.

Meanwhile, from the perspective of domestic firms, it may be a tactic that domestic firms access foreign resources through business partnerships with inward investing foreign MNEs. It is a concept similar to the internationalisation strategy of the LLL framework. However, the LLL framework was devised for emerging market MNEs going abroad. This thesis proposes to examine if the LLL framework is valid for understanding the upgrading of emerging market firms in the home country. Further, because the LLL framework does not explicate how domestic firms manage new resources from foreign counterparts to upgrade in detail, it leaves a research gap for this thesis to explore. In addressing the research gap, this thesis can make its most important theoretical contribution.

The second important aim of this thesis is to provide an insight into the outcomes of IFDI for the Chinese wine industry. The Chinese wine industry has witnessed significant growth over the past forty years, and it is valuable to investigate the factors that have driven this growth, in particular the role of IFDI. Given the lack of academic research, such a context-specific phenomenon is an important rationale for this thesis.

Chapter 3 Study context

3.1 Introduction

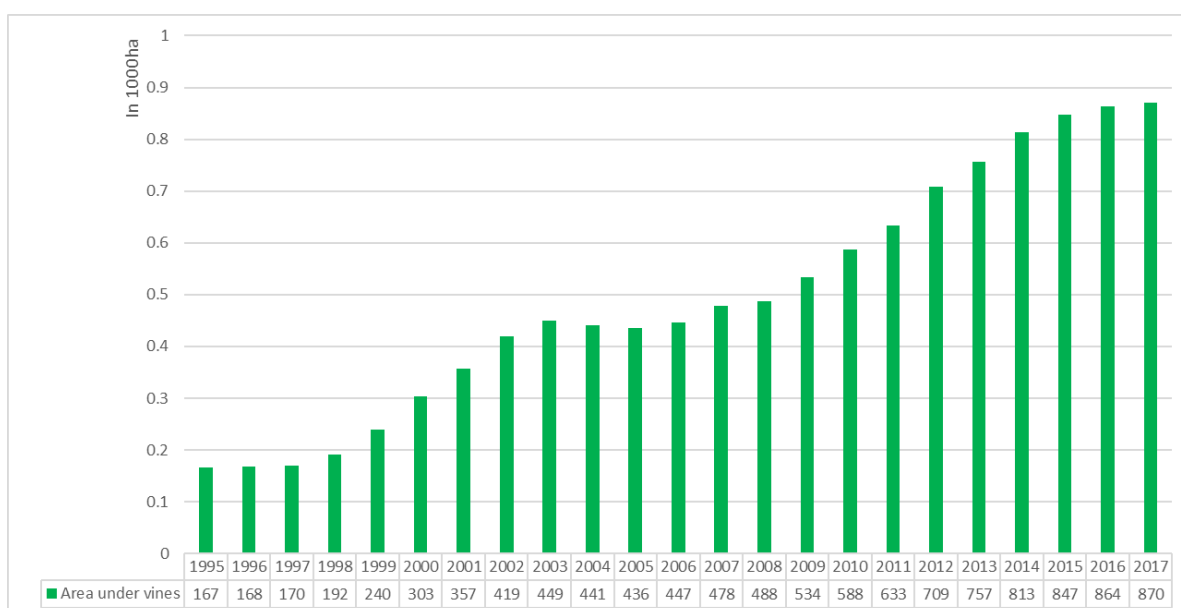
The burgeoning Chinese wine industry is a remarkable economic success story, and the industry continues to expand at a rapid rate. From modest beginnings and, in a context where wine was not traditionally a popular drink, China is now the fifth largest wine-consumer country in the world, according to the International Organisation of Vine and Wine (2019a). IFDI has played a catalyst role in the rapid expansion of the Chinese wine industry from the 1980s to present time. After a number of mergers and acquisitions, according to interviewees, by 2019, there were about 13 Sino-foreign wine JVs and 11 wholly foreign-owned wine firms in the Chinese wine industry. The relationship between the Chinese wine industry and IFDI has prompted this study.

This chapter sets the scene for this study by highlighting the L-specific advantages and disadvantages of China as a wine-producing region and market, and providing an overview of domestic and foreign firms that operate in China. First, the chapter introduces the current status of wine production in China. It covers aspects such as vineyard area, wine regions and industrial clusters, wine output, innovation capacity, wine and wine expositions, as well as Chinese wine's performance on the international wine stage. Second, the chapter evaluates and discusses the wine market in China. Seven aspects are included: wine culture, wine market size, market competition, wine firms, wine brand shares, and wine imports and exports. These features indicate why the Chinese wine industry is such an attractive site for IFDI and why it is pertinent to investigate the impact of IFDI and the process by which IFDI's impact occurs. In summary, the chapter shows significant L-specific advantages of the Chinese wine industry as a favourable investment environment (i.e., *terroir* and market), and discusses key wine firms doing business in China through IFDI.

3.2 China's wine production

3.2.1 Vineyard area

The L-specific advantages for IFDI in the Chinese wine industry are apparent in the significant increase in vineyard coverage during the period from 1995 to 2017. As can be seen from Figure 3.1, according to the International Organisation of Vine and Wine (OIV), area under vines in China reached approximately 870,000 hectares (12% of the world vineyard) in 2017, and this has made China the 2nd largest vineyard worldwide by land area (International Organisation of Vine and Wine, 2018). The area under vines includes land used for growing wine grapes, table grapes and dried grapes. China's grape production has topped the list of major wine producing countries for six years in a row from 2011 to 2017, increasing steadily from about 9.2 to around 13.3 million tons (Figure 3.2), but wine grape production has remained a low proportion, 11-12% of the total grape production (Figure 3.3). As can be seen, China's terroir is suitable for grape-growing. Obviously, there is potential for China to produce more wine grapes. Terroir, as one significant L-specific advantage of the Chinese wine industry, provides an opportunity for investors from all over the world to produce quality wines.



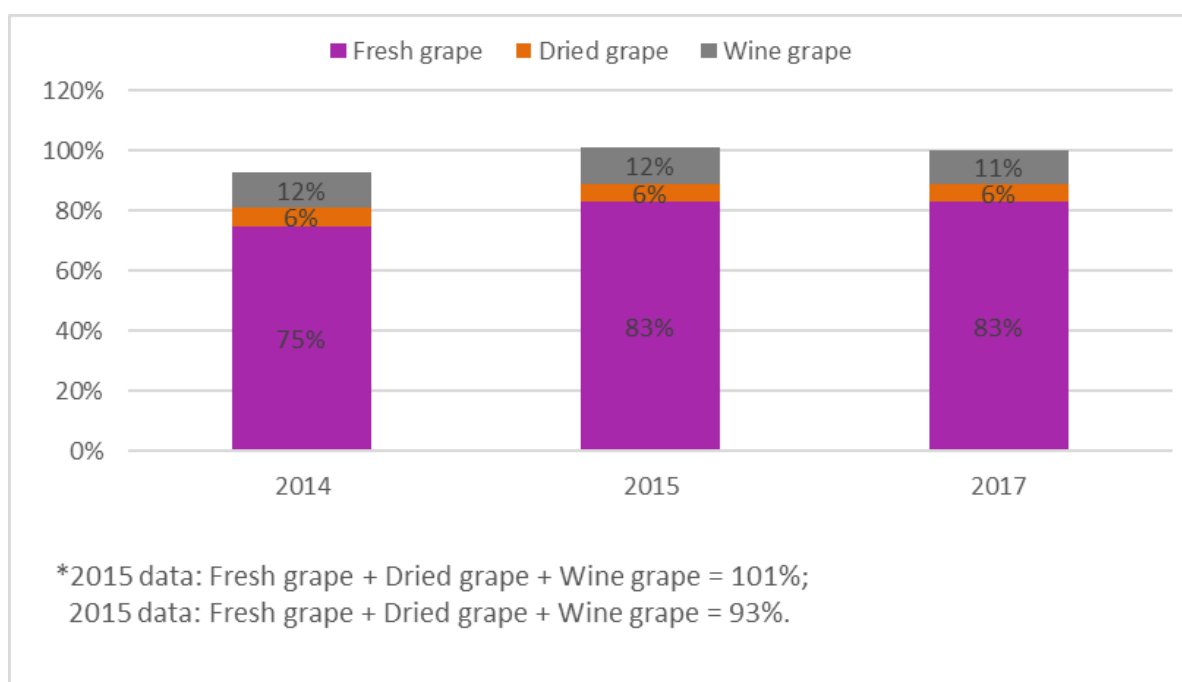
Source: International Organisation of Vine and Wine, 2012; 2017; 2018.

Figure 3.1 Area under vines in China (1995-2017)



Source: International Organisation of Vine and Wine, 2016a; 2017.

Figure 3.2 Grapes production in China (2011-2017)



Source: International Organisation of Vine and Wine, 2016a; 2017; 2018.

Figure 3.3 Wine grape production in China (2014, 2015 & 2017)

3.2.2 Wine-producing regions & industrial clusters

There are a number of wine-producing regions which provide a range of options for potential foreign investment. Figure 3.4 shows China's major wine producing provinces and the 18 wine regions within these 10 provinces. These are Shi-he-zi, Ma-na-si and Shanshan in Xinjiang Province; Minqin and Wuwei in Gansu Province; He-lan-shan in Ningxia Province; Jiangbian, Yongren and Mile in Yunnan Province; Qingxu in Shanxi Province; Hangu in Tianjin municipality; Changli in Hebei Province; Tonghua in Dongbei Province; Pingdu and Jiaodong peninsula in Shandong Province; as well as Lankao, Minquan and Xiayi in Henan Province (All-Winery.com, 2016). These 18 regions produce nearly 95% of Chinese wine; Shandong Province and Hebei Province are said to have the largest wine production volume (Winesinfo.com, 2004).



Source: All-Winery.com, 2016.

Figure 3.4 China's wine producing regions

The attractiveness of China's terroir for IFDI is increased by the diverse conditions and climates in China which enable different types of wine grapes to be cultivated. China has a vast territory, located between 37 and 40 degrees of northern latitude. Its eastern coastal areas and inland areas have diverse geographical conditions and local climates. Hence, different wine-producing regions cultivate wine grapes with region-specific pros and cons, and importantly, have the potential to make wine which reflects China's terroir. For example, in western China such as Shaanxi, Ningxia and Xinjiang with large desert areas and very few plant diseases and insect pests, the climate features are drought, high temperature difference between day and night, and strong UV rays. Wine grapes there tend to have deep colours and a high degree of sweetness, so it would be

possible to make wines with rich tannin substances and glycerol compounds, full body, high alcoholic volume and a more complex taste. By comparison, the growth period of wine grapes in north China, such as the Shandong Peninsula, is longer than that in western wine regions. The weather in the north does not change suddenly from cold to hot or vice versa. Northern wine regions have more rainfall and less intense UV rays than western wine regions. Under such conditions, the fragrance substances within the wine grapes accumulate slowly. This kind of wine grape makes delicate and elegant wine, with a higher degree of acidity, lower alcohol volume and lighter colours. Thus, in China, there are clearly multiple opportunities across a diverse terrain for growing many varieties of quality wine grapes and developing the Chinese wine industry. There is also an opportunity to produce a distinctive wine which reflects China's terroir. All of these make the Chinese wine industry extremely attractive to foreign investors.

Further, the attractiveness of China's terroir for investors is enhanced by many wine industrial clusters that have been established in or near these wine regions. To name just a few, they include Helan Mountain's east foothill in Ningxia Province (MIIT, 2011), Baola Valley of Yantai in Shandong Province (People.cn, 2016), Penglai in Shandong Province (Zgnjw.com.cn, 2010a), Fangshan District near Beijing (Winesinfo.com, 2013), Communist Youth League farm of Xinjiang production and construction corps in Xinjiang Province (Ce.cn, 2016), Hexi Corridor of Wuwei in Gansu Province (Cnwinenews.com, 2016), Huanren in Liaoning Province (Chinaprint.org, 2014) and Changli in Hebei Province (China wine taster, 2014).

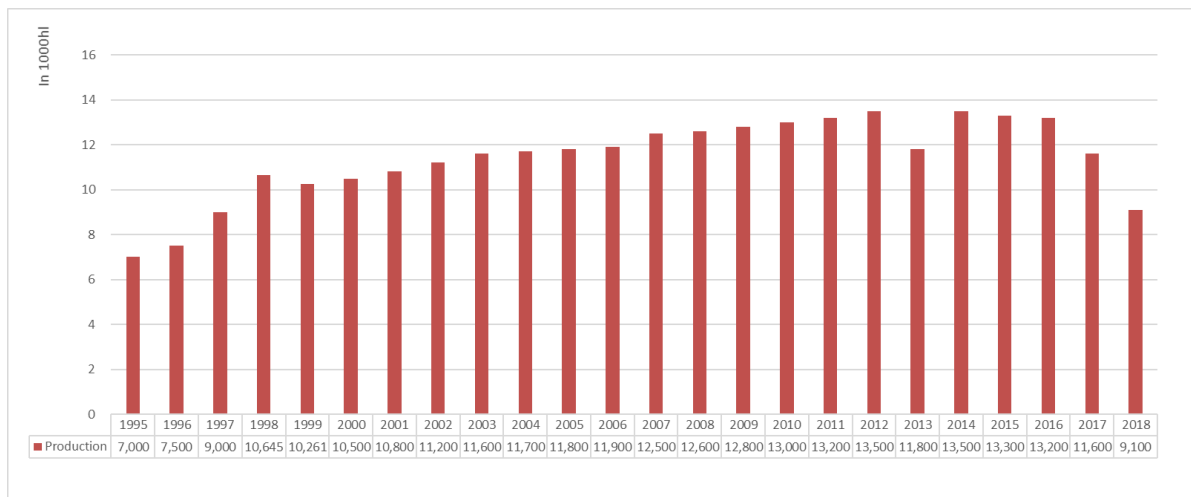
In addition to these industrial clusters, there are an increasing number of wineries for producing boutique wines in Xinjiang, Gansu, Ningxia, Hebei and Shandong Provinces (Ma, 2017). For example, in the Helan Mountain's east foothill area of Ningxia Province, by 2017 there were 199 registered boutique wineries. Of these, 86 wineries were operating and 113 wineries were under construction (Ningxia wine industry development bureau, 2018b). With extensive awareness and recognition, Ningxia

Province has exceeded many famous international wine-producing countries and regions, and is even said to be only second to Bordeaux, France (Lockshin, 2014). In 2012, Ningxia was the first province of China to be accepted by OIV as an observer (Chinanews.com, 2019a; NXNEWS.NET, 2019). In 2013, *The World Atlas of Wine (7th edition)* started to include Helan Mountain's east foothill of Ningxia, which marks Ningxia as a new addition to world wine regions (Chinanews.com, 2019a). After visiting Ningxia's wineries and tasting their wines, the president of OIV commented that Ningxia's wines had attained international standards (Ningxia wine industry development bureau, 2018a). Another historical and famous wine regions in China are Yantai and Penglai in Shandong Province. In 1987, Yantai was named by OIV as an "International Vine and Wine City" and was accepted by OIV as a municipal observer. It is the only city in Asia that has achieved this honour. Yantai had 162 wine-producing enterprises by 2018 (Winesinfo.com, 2020). In the Penglai area by 2018 there were 33 boutique wineries and another 57 wine-producing companies. Wines from Penglai region have so far won 152 prizes at international and national wine competitions including Concours Mondial de Bruxelles, Decanter and Vinalies (Winechina.com, 2018d). These examples indicate the scale of China's wine production and China's ever-increasing international reputation as a wine-producing country. Correspondingly, its attractiveness to investors is readily apparent and validates an inquiry into the precise ways in which IFDI can contribute to this exponential growth.

In China's wine regions and industrial clusters, there are natural and societal conditions that are conducive to the development of local wine industries. These conditions relate to regional climate, land, irrigation systems, labour force, an increasingly sophisticated supply chain, local institutional regulations and service mechanisms, just to name a few. All these are beneficial to make quality wines with location-specific flavours and as such, are important considerations for both domestic and foreign investors.

3.2.3 Wine output

The details of wine output would also be an important consideration for investors. China produces red wine, white wine, dry wine, sweet wine, sparkling wine and ice wine. More than 80% of wines are dry wines while sweet wines account for approximately 10%. Then, 90% of the dry wines are red wines while 10% are white wines, because Chinese consumers' preference is red wine (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017). The figures for wine production indicate some variability.



Source: International Organisation of Vine and Wine, 2012; 2017; 2018; 2019a.

Figure 3.5 Wine production in China (1995-2018)

From 2001 to 2012, the annual income and annual profit growth rates of China's wine sector were about on average 23% and 26% respectively. The annual profit growth rate in 2012 peaked at 52.4%, with a total revenue of CNY439 billion (Cnwinenews.com, 2015a; He & Wang, 2016). Although the country's wine production experienced a noticeable reduction in 2013, it peaked again at approximately 13,500,000 hectolitres in 2014 and retained the momentum until 2016. Wine production started to decrease in 2017 and dropped to its lowest level over the last two decades with 9,100 hectolitres

produced in 2018 (Figure 3.5). According to OIV (2018; 2019a), China was the 7th largest wine producer worldwide in 2017, and the 10th in 2018.

China's wine production has been somewhat affected by the government corruption crackdown campaign which started in late 2012 and prompted a decrease in the consumption and price of wine. The government corruption crackdown campaign and its influence on wine demand has, to a large extent, cooled down the virtual-high prices of both China's domestically-produced wines and imported wines. Coupled with a consequent pressure on the stock, in 2013, the whole sector's income dropped 7% with a 19% reduction in profit (He & Wang, 2016). From an investor's perspective, the decrease in production is less disturbing than it may appear. Some of this decrease is attributable to the government crackdown on corruption which has in turn led to a restructuring of the Chinese wine sector and established a healthier direction for the development of the Chinese wine industry as a whole.

3.2.4 Innovation capacity

According to China Alcoholic Drinks Association (CADA), the overall innovation capacity of the Chinese wine industry is comparatively weak (Lwzb.stats.gov.cn, 2017). However, there are still some noteworthy R&D achievements that can provide the foundation for further technological advances. On the other hand, the relatively weak innovation capacity of the Chinese wine industry provides a significant point of entry for foreign investors.

There are some examples of R&D activities in the Chinese wine industry. For instance, Changyu's enologist bred two wine grape varieties – Yan73 and Yan74 in 1981. These two varieties of grape have the highest chroma worldwide and so are the first choice for improving the tone of red wine. This innovative R&D achievement is said to be the most significant contribution to the Chinese wine industry (Changyu, 2014a). In 2015,

Changyu built China's unique state-level enterprise technology centre (Changyu, 2015). In 2017, there was a production innovation from Chateau Changyu Moser XV; its chief winemaker, Lez Moser made white Cabernet - the first Blanc de Noir in China. This was the first time in China that a wine company used black wine grapes (Cabernet) to brew white wine (Chinanews.com, 2017).

There are some further examples of innovation development. From 2007 to 2010, Dynasty built a cutting-edge experimental centre and a high-end wine R&D platform, and developed high-end ice wines and high-end red wines. An example of the high-end red wines is the Daguet de Berticot Merlot (Zgnjw.com.cn, 2010b). Chandon launched two semi-dry sparkling wines "Chandon·Me" in 2017 and "Chandon·禧 (xi)" in 2019. These two products were developed in response to Chinese consumers' preferences for particular wine tastes and colours. Both sparkling wines were full of fruity flavour and sweetness; the first one was pink and the second one was red (Winechina.com, 2017; Sina, 2019b). In another innovation, Weilong developed organic wines (Weilong, 2016). Compared with wine-producing companies, the technological innovation abilities of wine packing and equipment enterprises have been improved significantly with increasingly frequent collaborations between these firms and research institutes (Lwzb.stats.gov.cn, 2017). This is particularly the case for processing machinery, packaging equipment, rubber covers, corks, screw caps and oak barrels (Tencent, 2008).

The importance of foreign involvement in innovation advances is evidenced by the fact that in the above examples, Changyu and Dynasty are Sino-foreign wine JVs, and Chandon is a wholly foreign-owned affiliate. They innovated technology, techniques and products while operating businesses in China. Their innovations profited their businesses and also inevitably encouraged other local firms in the Chinese wine industry to develop R&D competences. Thus, to some extent, IFDI has contributed to the innovation capacity of the Chinese wine industry.

3.2.5 International vine and wine expositions in China

As the Chinese wine industry develops, world-class vine and wine organisations, expositions, conferences and media help bring various players from the international wine industry to China. These players include wine-producing companies, distributors, suppliers, as well as consultancies and agencies related to wine techniques, culture and tourism. The involvement of these parties helps improve the supply chain of the Chinese wine industry and so create a more enticing production environment for domestic and foreign wine-related business investors.

Table 3.1 summarises some major internationally famous vine and wine expositions that took place in China from 1998 to 2018. As can be seen, in 1998, an international wine and spirits trade show, Vinitaly China, was held in China. It became a famous platform where wine brewers, buyers, importers and distributors from Asia and Italy communicate with each other. In 1999, Vinitech China, a world exhibition of vine, wine and spirit-related equipment and technology, was held in Qingdao. This was an indicator that international expositions of wine techniques started to take place in China (Icewine in China, 2013). In 2005, Vinitech China was held in Qingdao again. In 2001, 2008 and 2011, this event was held in Penglai. In July of 2013, the 7th Yantai International Wine Exposition for Wine & Spirits, Food & Beverage was held successfully. Visitors and exhibitors came from 15 countries and regions such as France, Portugal, Spain, Italy, Germany, Hungary, the US, Australia, New Zealand, South Africa, Chile, Argentina, Japan, South Korea, Hong Kong and more than 10 provinces from mainland China. There was a total of 636 exhibition booths. Of those, 186 stands were rented by foreign exhibitors. In September of the same year, the 2013 International Academic Conference of Vine and Wine was held in Ningxia, co-organised by OIV and the People's Government of Ningxia Hui Autonomous Region (Icewine in China, 2013; Li, 2014; Winechina.com, 2010; 2012). From 2014, Sitevinitech China, a new version of Vinitech China, has been held every June. In 2014,

2015, 2017 and 2018, it was held in Ningxia while in 2016 it was held in Penglai. In addition, in 2014, the 11th International Conference on Grapevine Breeding and Genetics was held in Beijing.

The staging of international wine events in China indicates the emerging significance of the Chinese wine industry. These events create communication platforms for professionals from the wine industries of China and foreign countries, and facilitate industrial communication, mutual learning, collaboration and the transfer of resources and expertise. In the context of IFDI, these events provide valuable opportunities for foreign companies to establish and sustain beneficial relationships with the Chinese wine industry.

Table 3.1 International vine and wine expositions in China (1998-2018)

Year	Events
1998	Vinitaly China 1998
1999	Vinitech China 1999 - a world exhibition of vine, wine and spirit-related equipment and technology - was held in Qingdao.
2001	Vinitech China 2001 was held in Penglai.
2005	Vinitech China 2005 was held in Qingdao.
2008	Vinitech China 2008 was held in Penglai.
2011	Vinitech & Vinalies China 2011 was held in Penglai.
2013	The 7th Yantai International Wine Exposition for Wine & Spirits, Food & Beverage was held.
2013	The 2013 International Academic Conference of Vine and Wine was held in Ningxia.
2014	Sitevinitech China 2014 was held in Ningxia.
2014	The 11th International Conference on Grapevine Breeding and Genetics was held in Beijing.
2015	Sitevinitech China 2015 was held in Ningxia.
2016	Sitevinitech China 2016 was held in Penglai, Yantai.
2017	Sitevinitech China 2017 was held in Ningxia.
2018	Sitevinitech China was held in Ningxia.

Source: HIGH-END WINE, 2017; Icewine in China, 2013; International Organisation of Vine and Wine, 2016b; Jianiag.cn, 2014; Winechina.com, 2010; 2012; 2014; 2018a; 2018b; Winesinfo.com, 2014b.

3.2.6 International awards for and media exposure of Chinese wine

Chinese wines have won a number of international awards and have been given an increasing amount of exposure in international media. For foreign investors, this recognition is proof that China's terroir has the potential to produce quality wines with an estimable reputation. Correspondingly, this reputation gives domestic and foreign

wine business investors the confidence and motivation to establish wineries and vineyards in China.

First, in terms of international awards, Table 3.2 shows the impressive performance of Chinese wine at international wine competitions. For example, at one of the most important wine competitions worldwide, the Concours Mondial de Bruxelles, from 2013 to 2018, Chinese wines have earned an increasing recognition from international wine experts and masters, with a distinct improvement in quality. For example, at the 20th Concours Mondial de Bruxelles in 2013, the Great Wall Sungod Chateau Special Edition Cabernet Sauvignon obtained a gold medal, with Glory Red from Chateau Junding of China National Cereals, Oils and Foodstuffs Corporation (COFCO) winning a silver medal. At the 21th Concours Mondial de Bruxelles in 2014, Chinese wines won two gold medals and three silver medals. At the 22th Concours Mondial de Bruxelles in 2015, Chinese wines won five gold medals and nine silver medals. This feat was exceeded in 2016, at the 23th Concours Mondial de Bruxelles, when Chinese wines won 1 Grand Gold medal, eight gold medals and 27 silver medals. In 2017, at the 24th Concours Mondial de Bruxelles, Chinese wines won four Grand Gold medals, 33 gold medals and 41 silver medals. Then, in 2018, at the 25th Concours Mondial de Bruxelles, Chinese wines won five Grand Gold Medals, 46 gold medals and 80 silver medals.

Chinese wines also had outstanding achievements at another world-class wine competition, the Decanter series awards. As can be seen from Table 3.2, at the 2013 Decanter World Wine Awards (DWWA), China sent 49 wines. Of these, two wines won silver medals, nine won bronze medals and another nine were selected as commended wines. At the 2013 Decanter Asia Wine Awards (DAWA), China sent 36 wines. Of these, two wines won silver medals, five won bronze medals and 11 won the Commended Seal of Approvals. At the 2017 DWWA, Chinese wines won three gold medals, 15 silver medals, 29 bronze medals and 44 Commended Seal of Approvals.

Table 3.2 International awards and media exposure of Chinese wine

Year	Events
2013	At the Concours Mondial de Bruxelles 2013, the Great Wall Sungod Chateau Special Edition Cabernet Sauvignon obtained one gold medal, with COFCO's Chateau Junding Glory Red winning one silver medal.
2013	Britain-based Drinks International announced World's Most Admired Wine Brands Top 50 list for 2013 on which Changyu ranked the 50th.
2013	At 2013 Decanter World Wine Awards (DWWA), China sent 49 wines; two wines won silver medals, nine won bronze medals and another nine were selected as commended wines.
2013	At 2013 Decanter Asia Wine Awards (DAWA), China sent 36 wines; two wines won silver medals, five won bronze medals and 11 won Commended Seal of Approvals.
2014	In the Concours Mondial de Bruxelles 2014, Chinese wines won two gold medals and three silver medals.
2015	In the 22th Concours Mondial de Bruxelles, Chinese wines won five gold medals and nine silver medals.
2016	In the 23th Concours Mondial de Bruxelles, Chinese wines won one Grand Gold medal, eight gold medals and 27 silver medals.
2017	In the 2017 Decanter World Wine Awards (DWWA), Chinese wines won three gold medals, 15 silver medals, 29 Bronze medals and 44 Commended Seal of Approvals.
2017	In the 24th Concours Mondial de Bruxelles, Chinese wines won four Grand Gold medals, 33 gold medals and 41 silver medals.
2018	In the 25th Concours Mondial de Bruxelles, Chinese wines won five Grand Gold Medals, 46 gold medals and 80 silver medals.
2018	Wines from 21 wineries of Ningxia attended "2018 Chinese Food Festival" held at the UN headquarters and were reported on in about 200 Chinese and foreign media.

Source: Decanter China, 2017; HIGH-END WINE, 2017; Icewine in China, 2013; Jianiang.cn, 2014; Ningxia Department of Commerce, 2017; Wineshe.com, 2017; 2018; Winechina.com, 2014; 2018a; 2018c; Winesinfo.com, 2014c; 2015b; 2016d; China Daily, 2018.

Second, the Chinese wine industry has received national and international recognition through media coverage. For example, one of the most trusted global drinks journals, the British journal, Drinks International, ranked Changyu 50th on its list of the World's Most Admired Brands Top 50. It was the only Asian brand to be included on this prestigious list (Table 3.2). In November of 2018, there were 21 wineries from Ningxia Province that successfully displayed their wines at the "2018 Chinese Food Festival" held at the United Nations Headquarters in New York. These wines hit the headlines of about 200 Chinese and foreign media such as Xinhua News Agency, China Daily, Wen Wei Po, The New York Times, The Wall Street Journal, ABC television, CBS Television and Fox News (Table 3.2; Winechina.com, 2018c).

3.3 China's wine market

This section discusses another significant L-specific advantage of the Chinese wine industry that attracts IFDI, a huge prospective wine market.

3.3.1 Wine culture

Overall, the majority of Chinese consumers are relatively unaware of the wine culture. The traditional alcoholic drink in China is Baijiu which is made primarily of sorghum or rice with alcoholic volume ranging from 20-60%. People *ganbei* (toast with a glass of alcoholic drink) for social occasions and to express friendship (Jenster & Cheng, 2008). Wine consumption in China only began in the mid-1980s (Jenster & Cheng, 2008). Most Chinese people drink wine on social occasions rather than with home meals as a daily drink (Gamble, 2006). The preference is to drink wine on special days including festivals, celebrations and vacations, mainly for the purpose of acquiring face value (Liu & Murphy, 2007). For example, Spring Festival and Mid-Autumn Festival are favoured seasons for wine sales via off-trade channels (Cheng, 2008), and wine sales during these two holidays constitute about 60% of annual total sales (Knowledge@Wharton, 2012). Wine for Chinese consumers is not a daily necessity but a symbol of

health-consciousness (Workman, 2006), cosmetic effect, sophistication (Winesinfo.com, 2015a) and social position (Fan, 2007). Chinese people consume superior brands of wines with an esteemed reputation as a way of demonstrating their status (Camillo, 2012).

Chinese consumers' limited wine culture and knowledge are also reflected in their acceptance of wine prices. Some consumers prefer moderately-priced products (Chen, 2003), while others are inclined to purchase low- or middle to low-priced wines for private or public consumption, and only buy ultra-high-end wines for significant reasons or occasions (Liu & Murphy, 2007). They have a fixed mindset that the top wines are French wines, but have no idea about Bordeaux wines (Chen, 2003). The 2016 investigation of CADA showed that domestic wines priced under CNY200 are better accepted by Chinese consumers (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017). As for the ultra-highly priced wines, Chinese wine consumers particularly favour those from Bordeaux, Burgundy, Lafite and Latour (Muhammad, Leister, McPhail & Chen, 2013). Camillo (2012) concluded that Chinese consumers prefer imported or expensive red wines for special occasions and average wines for normal consumption.

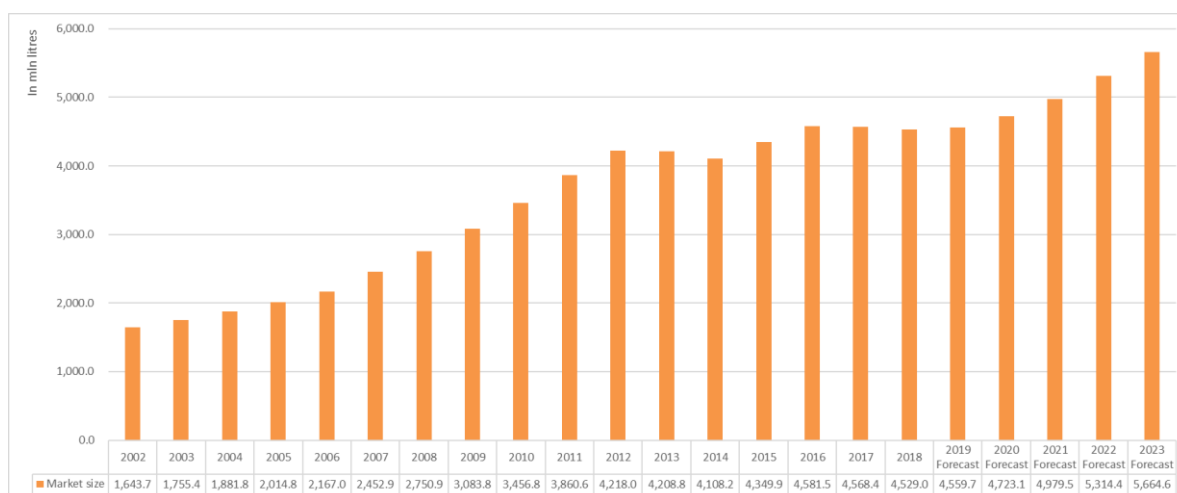
As the wine business evolves in China, market enthusiasm towards wine-related education is growing. However, current wine-related education in China is superficial and usually only about Western wine culture. There is a huge difference between Chinese and Western wine markets and food cultures (Lockshin, 2014). Many wine experts are calling for a wine education that accommodates the Chinese market and Chinese food culture, because China has diverse types of cuisine and different ways of serving food and beverage. From the perspective of IFDI, there is a potential to establish wine education which can eventually be responsive to Chinese food and beverage culture. The process begins when IFDI introduces Western wine culture and Western wine education to nurture China's wine consumers, broaden consumers'

horizons and inspire China's wine professionals. On this foundation, China's wine experts can develop Chinese wine culture more effectively by adapting it to local food and beverage culture and habits.

3.3.2 Wine market size

Although China is not a traditional wine-consuming country, there is a huge potential domestic market as China's prosperity grows. China ranks fifth on the worldwide wine consumption list (Ecns.cn, 2014; International Organisation of Vine and Wine, 2018; 2019a). China's wine consumption^{iv} reached around 17.9 million hectolitres (mhl) in 2017, accounting for about 7.3% of the total wine consumption worldwide (International Organisation of Vine and Wine, 2018). China's wine consumption then reached 17.6mhl in 2018, with an increase of 1.3% compared to 2014 (International Organisation of Vine and Wine, 2019a).

According to Euromonitor International (2019), the potential of Chinese wine consumption has sustained a rising momentum from 2002 to 2018. In this period, three years produced the most significant records: 4,581.5 million litres in 2016, 4,568.4 million litres in 2017, and 4,529.0 million litres in 2018 (Figure 3.6). Euromonitor International (2019) also estimated that the wine market size in China would continue to rise from 2019 with about 4,559.7 million litres to 2023 with around 5,664.6 million litres (Figure 3.6). Likewise, the Chinese Business Centre, Institute of World Economics and Politics, Chinese Academy of Social Sciences (2012) reported that the number of China's wine lovers is forecast to increase from about 190 million in 2009 to approximately 210 million in 2025. It should be noted that while Chinese wine consumption in 2009 exceeded one billion bottles, wine consumption in China only contributed about 1% of the country's total alcoholic intake, and wine consumption per capita in China was just around 6% of the world average level. This shows that there is a huge potential of growth in the wine consumption per capita in China.



Source: © Euromonitor International, 2019 (data access via Passport, Search Statistics).

Figure 3.6 Wine market size in China (2002-2023)

Along with an ongoing and projected increase in wine consumption, there are strong indications that the Chinese market will expand rapidly. International Wine and Spirit Research (IWSR) expected that from 2016 to 2020, the wine market in China would expand more than 40% in value, with consumption of still wine and sparkling wine increasing 19% and 41% respectively (Li, 2017). The value of the Chinese wine market was at third place in the world with USD16.5bn in 2017 and was estimated by Vinexpo and IWSR to hit second place by 2020, then to exceed USD19.5 billion by 2022 (International Wine and Spirits Research, 2019).

It is said that market is one of the most important considerations for winery/vineyard investors when choosing investment destinations. Thus, market potential as a significant L-specific advantage of the Chinese wine industry, provides foreign investors extensive business opportunities and is consequently, attractive to IFDI. Further, because every wine has its own personality and most consumers do not mind trying different varieties of wine products, foreign wine companies in the Chinese wine market will not wrest customers from local Chinese wine firms. Instead, they will help upscale the Chinese wine industry and the Chinese wine market through investing in local businesses, nurturing local customers and developing niche markets.

3.3.3 Market competition

In considering the L-specific advantages of the Chinese wine industry, foreign investors will also need to be aware of the nature and extent of competition in the market.

According to the annual revenue of listed wine companies, Table 3.3 shows the annual income of eight major local listed wine enterprises and their corresponding shares in the total revenue of the Chinese wine industry from 2011 to 2014. These listed wine enterprises are Changyu, Great Wall, Weilong, CITIC Guoan Wine, Dynasty, Mogao, Tontine and Tongpu. It is worth noticing that first, overall, the annual revenue of these companies kept dropping from 2011 to 2014, and as such, their shares in the total revenue of the Chinese wine industry were shrinking year by year. Second, the total revenue of these listed companies was CNY12,799 million in 2011, but CNY8,391 million in 2014. Third, in terms of Changyu and Dynasty^v as IJV representatives in the Chinese wine industry, the former consistently maintained first place, and the latter moved from third place in 2011 to fourth place in 2012, then fifth place in 2014.

Table 3.3 Annual revenue and revenue shares of the leading listed wine companies in the Chinese wine industry (2011-2014)

In 100mln CNY

Company	2014		2013		2012		2011	
	Annual revenue	Industry share	Annual revenue	Industry share	Annual revenue	Industry share	Annual revenue	Industry share
Changyu	41.57	9.89%	43.21	10.59%	56.44	12.87%	60.28	15.67%
Great Wall	17.57	4.18%	14.75	3.61%	31.08	7.09%	29.54	7.68%
Weilong	7.14	1.70%	7.11	1.74%	7.98	1.82%	8.36	2.17%
CITIC Guoan Wine	5.23	1.24%	5.52	1.35%	6.19	1.41%	5.37	1.40%
Dynasty	5.19	1.23%	6.15	1.51%	7.74	1.77%	11.56	3.01%
Mogao	3.25	0.77%	3.65	0.89%	3.61	0.82%	3.63	0.94%
Tontine	2.86	0.68%	1.76	0.43%	6.58	1.50%	8.30	2.16%
Tongpu	1.10	0.26%	0.85	0.21%	0.84	0.19%	0.95	0.25%

*Industry share = Annual revenue of the company / the total revenue of the Chinese wine industry in the year

Source: Dong, 2014; Mogao, 2016; TodayIR.com, 2015; Tongpu, 2015; Weilong, 2016.

These declining revenues are consistent with the slight downward trend in China's wine market size from 2012 to 2014 (Figure 3.6). Since late 2012, the government's corruption crackdown campaign and restrictions on lavish gifting and the so-called "three public consumptions"^{vi} among China's civil servants, has affected wine prices. As a result of the crackdown, mass-market wines with prices ranging from CNY80 to CNY180 have become bestsellers while the sales of wines priced over CNY300 have dropped to half and wines priced more than CNY1000 have rarely been requested by customers (YuboInfo, 2016).

These societal and market circumstances are considered as one of the main reasons for the decreased annual revenue of some giant wine suppliers selling high-priced wines. However, from a long-term perspective, this campaign would eventually benefit the development of the entire Chinese wine industry because it has put pressure on wine products with nominally-high prices, forced distributors to decrease inventories, helped wine consumption return to rationality, promoted mass-market wine sales and facilitated the establishment of a virtuous circle for business operations in the Chinese wine market (Sohu.com, 2014).

Another major factor that caused key leading winemakers to lose their dominance of industry shares was that there was an increasing number of foreign players competing in the Chinese wine market. China's huge market demand for wines led by rapid economic development has naturally attracted overseas suppliers. Compared with the Chinese wine industry, overall, foreign wine industries have advantages in both quantity and quality of wine production. This is because over hundreds of years' development, they have relatively mature operation systems in terms of wine grape cultivation, winemaking techniques, wine production, marketing and management. For example, the total wine output of France, Italy and Germany can be up to ten times greater than China's wine output (Dong, 2014). Chinese consumers' increasing demand for foreign

wines indicates the ongoing and potential opportunities for IFDI into the Chinese wine industry.

3.3.4 Wine-producing firms

3.3.4.1 The character of wine-producing firms in the Chinese wine industry

In the Chinese wine industry, there are a number of wine-producing enterprises, wine brands and certain particular characteristics. First-line winemakers include Changyu (Sino-foreign JV), Great Wall, Dynasty (Sino-foreign JV) and Weilong. They have vineyards and wineries in multiple wine regions with large-scale facilities and huge-scale economies, as well as broad brand recognition (Lockshin, 2014).

Second-line winemakers mainly consist of CITI Guoan, Tontine, Tonghua, Xintian, Yu-nan-hong, Huadong (1985 – 2001: Sino-foreign JV; currently Hong Kong investment), Dragon Seal, Fengshou, Mogao, He-lan-shan (before 2009: local Chinese wine firm; after 2009: wholly foreign-owned wine affiliate) and Chang-bai-shan (Winechina.com, 2009; Dong, 2014).

There are two significant features regarding wine producers in the Chinese wine industry: firstly, there are a large number of wine-producing enterprises; secondly, industry production capacity is highly concentrated in a few corporate giants. For example, in 2006, there were more than 500 wine companies in China, but the first ten largest ones controlled about 61.8% of the market share. Of these Changyu, Great Wall and Dynasty supplied nearly 52% of the market demands, with total company assets and sales revenue accounting for around 38% and 56% of the whole Chinese wine industry (Winesinfo.com, 2012). In 2009, Changyu had about 23% of the market share and specialised in premium wines. Great Wall possessed around 16% of the market share and was popular for midrange wines. Dynasty earned approximately 10% of the market share, targeting midrange wines and Shanghai area (Wu, 2009). By 2015, Changyu was the most popular brand in Shandong and Fujian areas. Great Wall had about 66% of the

market share in southwestern China, and over 50% of the market share in Beijing and its surrounding areas, and north and south China. Dynasty had more than 40% of the wine market share in Shanghai (Cnwinenews.com, 2015b). In 2016, Changyu was the largest Chinese wine provider in east and south China, with approximately 12.85% and 8.14% of the market shares in the local domestically-produced wine markets respectively, while Dynasty topped the Chinese wine sales list in north China (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017).

While Changyu, Great Wall and Dynasty dominate wine production and the market share in China, 70% of winemakers are small and medium-size enterprises (Chinaidr.com, 2016). For instance, in 2010, there were 940 wine companies that had production licences in China, but only 248 had an annual production capacity valuing at least CNY20 million (Winesinfo.com, 2011a); and this number decreased to 219 in 2015 (Winesinfo.com, 2016c). The latest statistics show that there are more than 450 wine-producing enterprises in China (China Wine Competition, 2018) with just 212 firms attaining an annual revenue of more than CNY20 million (Putaojiu.com, 2019b).

According to CADA's investigation, in 2016 and 2017, the top 10 wine companies on the Chinese wine annual sales list contributed about 90% of the total annual revenue of all Chinese wine companies. Out of these companies, Changyu, Great Wall and Weilong maintained the first three places during the two years, while Dynasty was in seventh place (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017; 2018). Changyu occupied about one quarter of the market of domestically-produced wine (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017). Additionally, more than 80% of China's large and medium-size wine enterprises are located in Shandong, Xinjiang, Hebei and Ningxia (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2017).

As can be seen, the Chinese wine industry provides opportunities for all varieties of wine firms to explore business ventures. Changyu and Dynasty are two large Sino-foreign JVs and have significant market impact on the Chinese wine market. Foreign investors, through establishing wholly foreign-owned wine affiliates and Sino-foreign wine JVs with local Chinese firms, develop their own wine businesses and can also contribute to the prosperity of the Chinese wine industry.

3.3.4.2 Wine firms with IFDI in the Chinese wine industry

Of particular pertinence to the focus of this study, this section discusses wine firms with IFDI in the Chinese wine industry historically and currently. This extensive history and involvement suggest the timeliness and relevance of the study on the specific process whereby IFDI impacts the Chinese wine industry.

3.3.4.2.1 Wine firms with IFDI in China before the establishment of the People's Republic of China in 1949

Historically, IFDI has played an important role in the progress of the Chinese wine industry. There is a long and diverse history of foreign investment in the Chinese wine industry, which sets the scene for this study. Table 3.4 records wine firms in China before the establishment of the People's Republic of China in 1949, and indicates the relationships between these early firms and their foreign connections, along with the links between these early firms and their contemporary successors. The table shows the different origins of these early firms. Of these, five of seven wineries were invested by foreigners and the other two by Chinese. The two wineries established by Chinese investors who had overseas connections. Changyu Pioneer Wine Company was built by a returned overseas Chinese businessman named Zhang, Bishi, while Qing-xu-lu Winery was founded by a Shanxi local businessman, Zhang, Zhipin. However, Qing-xu-lu Winery's winemaking equipment at its inception was imported from France (Guo, 1998; Winechina.com, 2016).

The business operations of these wineries were recorded in detail. In 1910, Beiping Shangyi Winery was built by a French clergyman - Shen, Yunpu who served at Notre Dame Catholic College of Arts. The winery was set up for providing Mass wine to Notre Dame Literary Association and Catholic churches across the country. Shen imported grapes from France, and planted them at Hei-shan-hu. When there was a bumper harvest, apart from wine, the winery also produced liqueur, brandy, and whiskey. The annual production of the winery was up to about a hundred tons; products were popular at embassies, restaurants and bars in Beijing, and meanwhile, were sold in Tianjin, Shanghai, Hankou and Guangzhou. Beiping Shangyi Winery was the predecessor of today's Beijing Dragon Seal Winery (Easy Tour China, 2017; Guo, 1998; Icewine in China, 2013; Winechina.com, 2016).

Qingdao Melco Winery was established in 1930 in Shandong Province. It started from a family workshop owned by a German grocer located on Hunan Road in 1914. After being sold and then operated by another German firm called Fu Chang Yang Hang for several years, the winery was taken over again in 1930 by the third German firm, Zui Mei Shi Yang Hang or Melcher & Co., and consequently, was named Melco Winery with a Chinese name of Meikou Winery. Qingdao Melco Winery had dealers in Shanghai, Tianjin and even prospered the business in South Asia. Its annual wine production in 1949 was recorded as 4.5 tons (Guo, 1998; Icewine in China, 2013; Winechina.com, 2016).

Another three wineries were built by the Japanese. The first winery, Jilin Chang-bai-shan Winery was built by Iijima Keizou in 1936. It was re-named as Lao-ye-ling Winery, and produced about 23 tons of wine in 1949 (Guo, 1998; Icewine in China, 2013; Winechina.com, 2016). The second winery was Jilin Tonghua Winery established by Kinoshita Keishi in 1938. In 1941, the Japanese investor changed the winery's address, scaled up the winery with an annual production capacity reaching

Table 3.4 Wine firms in China before the establishment of the People's Republic of China in 1949

Year of establishment	Company	Ownership	Notes
1892	Changyu Pioneer Wine Company	Founded and owned by a returned overseas Chinese businessman, Zhang, Bishi	It is the predecessor of today's Yantai Changyu Group Co., Ltd.
1910	Beiping Shangyi Winery	Built and owned by a French clergyman, Shen, Yunpu	It is the predecessor of today's Beijing Dragon Seal Winery Co., Ltd.
1921	Qing-xu-lu Winery	Founded and owned by a Shanxi local, Zhang, Zhipin	Its brewing equipment at the inception of the establishment of the winery was imported from France.
1930	Qingdao Melco Winery (Also known as Meikou Winery)	Established and owned by German firms (i.e., Chang Yang Hang and Zui Mei Shi Yang Hang or Melcher & Co.)	-
1936	Jilin Chang-bai-shan Winery	Built and owned by a Japanese, Iijima Keizou	-
1938	Jilin Tonghua Winery (Also known as Tonghua wine Co., Ltd.)	Established and owned by a Japanese, Kinoshita Keishi	It is the predecessor of today's Tonghua Grape Wine Co., Ltd.
1941	A winery at Shacheng Town of Huailai County in Hebei Province	Founded and owned by a Japanese, Sakurai Anzou	In 1954, this winery was re-named as Beijing Ye-guang-bei Winery.

Source: Easy Tour China, 2017; Guo, 1998; Icewine in China, 2013; Li, 2013; Winechina.com, 2016.

approximately 70 tons and re-named the winery with a Japanese style name of 通化葡萄酒株式会社 (Tonghua wine kabushiki kaisha). In 1943, the winery added fermentation and distillation equipment, and had 150 employees. Its wine annual production achieved about 100 tons. It is today's Tonghua Grape Wine Co., Ltd (Guo, 1998; Icewine in China, 2013; Winechina.com, 2016). The last winery was founded in 1941 by Sakurai Anzou at Shacheng Town of Huailai County in Hebei province. In 1954, it was re-named as Beijing Ye-guang-bei Winery (Guo, 1998; Icewine in China, 2013; Winechina.com, 2016).

3.3.4.2.2 Wine firms with IFDI in the contemporary Chinese wine industry

In contemporary times, IFDI has continued to play a catalyst role in the Chinese wine industry, and a range of foreign affiliations and relationships between foreign firms and local Chinese firms have been built. Table 3.5 chronicles key wine firms with IFDI (incl. Taiwan, Hong Kong and Thai-Chinese investment) in the contemporary Chinese wine industry. From 1980 to 2017, there was a total of 29 wine firms with IFDI that registered and operated businesses, including 18 Sino-foreign JVs and 11 wholly foreign-owned affiliates (incl. one Taiwanese, four Hong Kong and one Thai-Chinese investment). After decades of M&As and evolution, some of these firms have developed as world-renowned winemakers while some have closed. At the same time, some JVs have become wholly foreign-owned firms, while some JVs and wholly foreign-owned firms have become Chinese-owned. There are now 13 Sino-foreign JVs and 11 wholly foreign-owned affiliates (incl. one Taiwan, six Hong Kong and one Thai-Chinese investment), in the Chinese wine industry.

These wine firms with IFDI have become representatives of FDI in the Chinese wine industry. They operate businesses in the Chinese wine market by exploiting the O-specific advantages of foreign parent companies and local Chinese collaborative partner firms. Through competition and evolution, many of them have not only survived, but also developed considerable scale, market share and reputation.

Changyu is a typical example of a world-class wine brand evolving from a domestic wine firm and operating under the structure of a Sino-foreign JV. Changyu has now captured worldwide attention and become the largest wine producer and wine seller in Asia (Sina, 2006), the fourth largest wine company worldwide and a leading global wine brand operator (Changyu, 2014b). Changyu was initially established by a returned overseas Chinese businessman in 1892 and was reborn in 1949 as a state-owned enterprise (SOE) when Yantai city was liberated. After a series of restructuring, under the guidance of the local government, Changyu was restructured again in 2005 from a SOE to a Sino-foreign JV, with foreign investment accounting for 43% of Changyu's assets.

Table 3.5 Wine firms with IFDI (including Taiwan, Hong Kong and Thai-Chinese investment) in the contemporary Chinese wine industry

Year of establishment	Company	Ownership	Notes
(Sino-foreign JV)			
1980	Dynasty Fine Wines Group Limited	Sino-French JV	The first Sino-Foreign JV in the Chinese wine industry
1985	Qingdao Huadong Winery Co., Ltd.	Established as a Sino-British JV in 1985	It is now registered as a limited liability company (Hong Kong legal person sole investment).
1987	Beijing Dragon Seal Winery Co., Ltd.	Established as a Sino-French JV in 1987	It is now registered as a limited liability company (Chinese investment).
1995	Zhangjiakou Great Wall Torres Winery Co. Ltd.	Established as a Sino-Spanish JV in 1995	Closed
1997	Sino-Foreign Joint Venture Martin Wine Co., Ltd.	Sino-British JV	-
1999	Beijing Bo-long-bao winery company	Sino-French JV	-
2001	Chateau Changyu-Castel Co., Ltd.	Sino-French JV	-
2002	Sino-French Xiangdu Winery Co., Ltd.	Established as a Sino-French JV in 2002	It is now registered as a limited liability company (Chinese investment).
2003	Canaan Winery	Sino-foreign JV	-
2003 - 2005	Yantai Changyu Group Co., Ltd.	Sino-foreign JV	-
2006	Chateau Changyu Icewine Co., Ltd.	Sino-Canadian JV	The largest ice wine production base worldwide
2007	Chateau Changyu AFIP Global Co., Ltd.	Sino-foreign JV	Investments from China, Italy, US, France and Portugal

(Table 3.5 continued)

Year of establishment	Company	Ownership	Notes
2008	Qingdao Great River Hill Winery, Co., Ltd.	Sino- Luxembourgish JV	-
2008	Huailai Amethyst Manor Wine Co., Ltd.	Sino-Chilean JV	-
2009	DBR-Citic Wine Estate (Shandong) Company Limited	Established as a Sino-French JV in 2009	The Chinese investor, CITIC Industrial Investment Group Corp., Ltd. divested in 2018. It is now registered as a limited liability company (Hong Kong legal person sole investment). The investor is DBR Hong Kong Limited.
2011	Moët Hennessy Chandon (Ningxia) Vineyards Co, Ltd.	Sino-French JV	-
2012	Moët Hennessy Shangri-La (Deqin) Winery Co., Ltd.	Sino-French JV	-
2017	Chateau Seppeltsfield Minquan Co., Ltd.	Sino-Australian JV	-
(Wholly foreign-owned firm)			
1990	Marco Polo winery	Built and owned by Italian investors	Closed
1999	Bodega Langes (Qinhuangdao) Co., Ltd.	Built and owned by an Austrian investor	It is now registered as a limited liability company (Chinese investment).
2005	Domaine Franco-Chinois	Foreign JV	-

(Table 3.5 continued)

Year of establishment	Company	Ownership	Notes
2009	Pernod Ricard (Ningxia) Winemakers Co., Ltd.	French investment	-
2011	Domaine Chandon (Ningxia) Moët Hennessy Co., Ltd.	French investment	-
(Taiwan, Hong Kong and Thai-Chinese investment)			
1997	Yunnan Red Group	Hong Kong investment	-
1998	Shanxi Grace Vineyard Co., Ltd.	Hong Kong investment	-
2007	Penglai Scottish Castle Limited	Taiwan investment	-
2008	Daylong Wine Co., Ltd.	Thai-Chinese investment	-
2012	Ningxia Grace Vineyard Co., Ltd.	Hong Kong investment	-
2013	Ningxia Copower Jade Chateau Limited	Hong Kong investment	-

Source: Aebischer, 2017; Easy Tour China, 2017; Guo, 1998; Icewine in China, 2013; Jenster & Cheng, 2008; Li, 2014; Sina, 2006; 2019c; Baidu enterprise credit, 2019a; 2019b; 2019c; 2019d; 2009e; 2019f; 2019g; 2019h; 2019i; 2019j; 2019k; 2019l; 2019m; 2019n; 2019o; 2019p; 2019q; 2019r; 2019s; Beijing Bo-long-bao winery company, 2019; Caijing.com.cn, 2005; Sino-Foreign Joint Venture Martin Wine Co., Ltd, 2019; Huailai Amethyst Manor, 2019; Jianiang.cn, 2013; Ningxiawine.net, 2019; QDSQ.QINGDAO.GOV.CN, 2019; Department of Commerce of Shandong Province, 2009; Sugar & Alcohol News, 2012; Dynasty Fine Wines Group Limited, 2019; Cnwinenews.com, 2018; Winesinfo.com, 2009; 2018b.

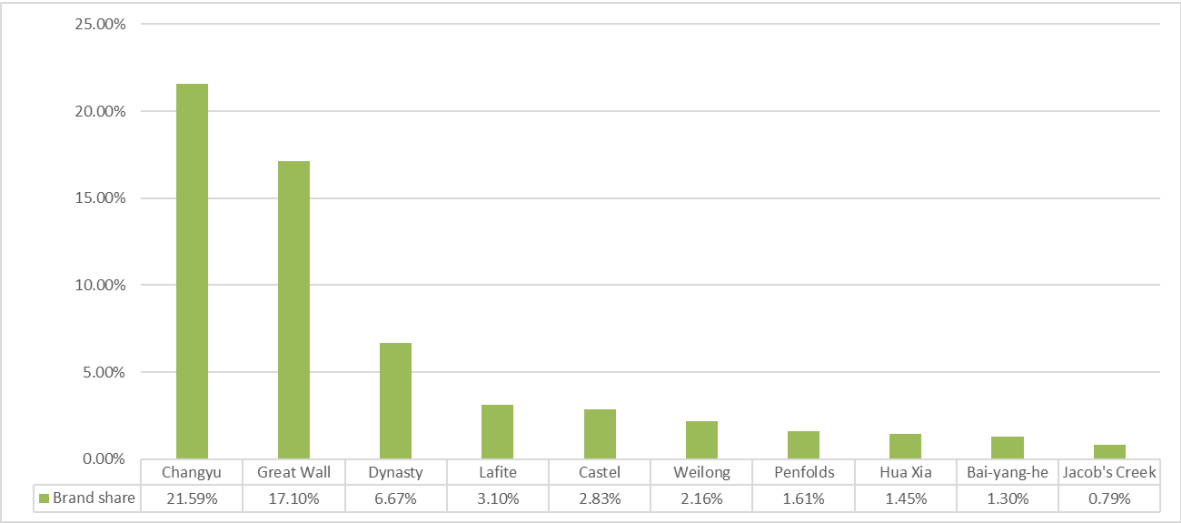
The success of Changyu is evidenced in the history of its annual revenue, its dominance in the Chinese wine market, the spread of overseas vineyards, the range of products and the achievement of international wine awards. These successes point to the role that IFDI can play in developing Chinese wine firms and consequently, the Chinese wine industry. This study examines the process by which IFDI facilitates the upgrading of local firms in the Chinese wine industry and consequently, the development of the Chinese wine industry as a whole.

3.3.5 Wine brand shares

Wine brand shares in the Chinese market reflect a thriving Chinese wine industry and numerous business opportunities for foreign wine business investors. Winesinfo.com (2016a) announced the top ten popular wine brands among Chinese consumers in 2015, and their market shares (Figure 3.7). There were six Chinese brands (e.g., Changyu, Great Wall, Dynasty, Weilong, Hua Xia and Bai-yang-he), two French brands (e.g., Lafite and Castel), and two Australian brands (e.g., Penfolds and Jacob's Creek) on the list. Changyu and Dynasty, as brand representatives of Sino-Foreign wine JVs in China, gained 21.59% and 6.67% of the market share. Great Wall, as a leading brand of Chinese indigenous wine enterprises, occupied 17.10% of the market share while Weilong, famous for its organic wines, had 2.16% of the market share. As can be seen, national brands, compared to foreign brands, have local advantages which enable them to tap into the wine market in China; and this, to some extent, explains why Sino-Foreign collaboration such as a Sino-Foreign JV is regarded as a preferred mode of entry, when FDI aims to open up the Chinese wine market and build brand awareness among Chinese consumers.

As players in the Chinese wine industry are gradually diversifying, the market share has started to disperse to all competitors instead of concentrating on several key leading winemakers or brands. This trend is expected to intensify, as the demand for quality

wines from Chinese consumers is growing and an increasing number of international wine suppliers are marketing their products in China. In this context, it is believed that the underlying reason why China’s local wine enterprises are continually losing their market shares is that the increasing competition from domestic and foreign wine suppliers is re-structuring the old closed market. In this increasingly competitive market, it will be important for local Chinese wine firms to examine the processes of their interactions with IFDI and sharpen them so as to achieve competitive advantages. This is a specific area where this study can make a valuable contribution.



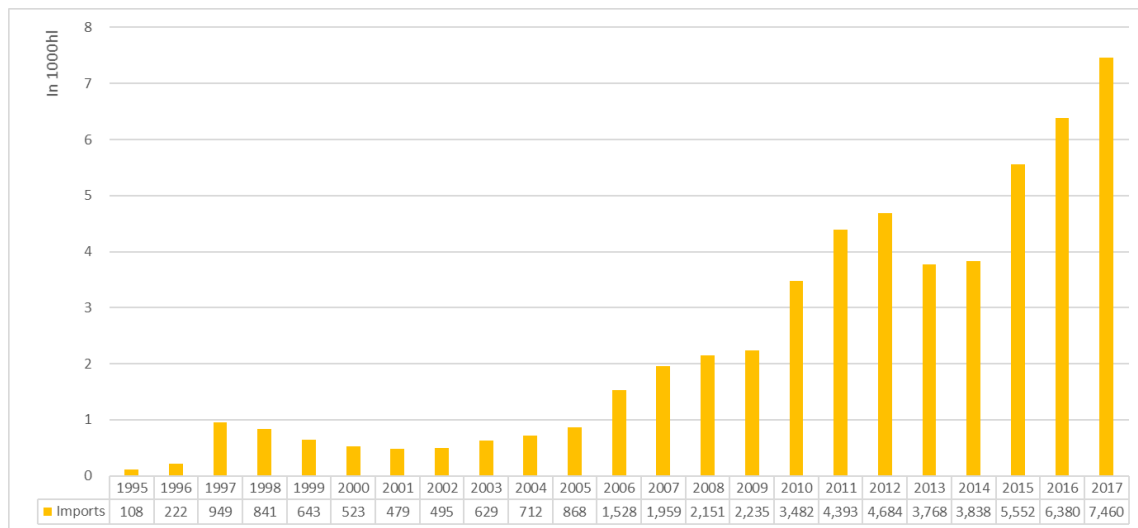
Source: Winesinfo.com, 2016a.

Figure 3.7 Brand shares in the Chinese wine market in 2015

3.3.6 Wine imports

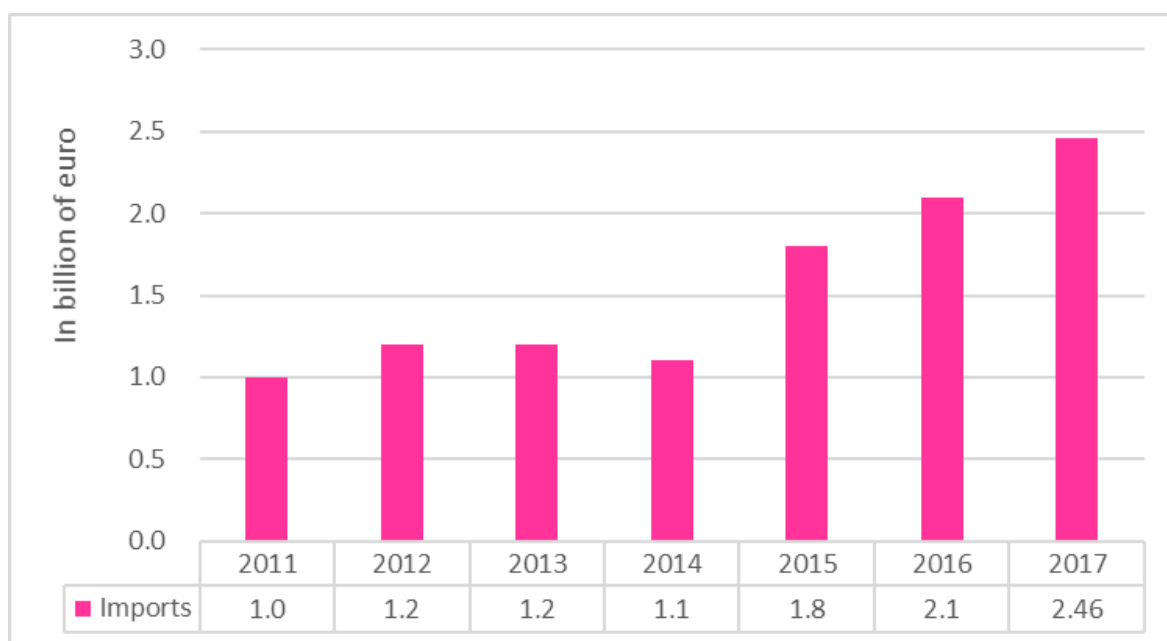
An increase in the brand share of foreign wines in the Chinese wine market indicates the growing acceptance of foreign wines by Chinese consumers and the consequent expansion of market opportunities for foreign wines. This coupled with the high popularity of imported wines demonstrates that the huge market potential is one significant L-specific advantage of China for IFDI. The market share growth rate of

imported wine in China has remained at approximately 21% during recent years, though wine imports have slowed down since 2013 (Cnwinenews.com, 2015a). As can be seen from Figure 3.8 and Figure 3.9, wine imports first declined from 4,684,000 hectolitres equivalent to about 1.2 billion euros by value in 2012 to 3,838,000 hectolitres equivalent to around 1.1 billion euros by value in 2014 (International Organisation of Vine and Wine, 2012; 2017; Winesinfo.com, 2014a; 2015a; 2016b; 2017; 2018a). After experiencing destocking in 2014, wine imports then soared to 7,460,000 hectolitres equalling 2.46 billion euros by value in 2017 (Winesinfo.com, 2018a).



Source: International Organisation of Vine and Wine (OIV), 2012; Winesinfo.com, 2014a; 2015a; 2016b; 2017; 2018a.

Figure 3.8 Wine import volume in China (1995-2017)



Source: International Organisation of Vine and Wine (OIV), 2017; Winesinfo.com, 2018a.

Figure 3.9 Wine import value in China (2011-2017)

Turning to the prices of imported bottled wines, in 2016 the following five countries were selling more expensive wines to China than others: New Zealand (USD9.76/l), Australia (USD6.83/l), America (USD5.39/l), France (USD5.05/l) and Italy (USD4.43/l). New Zealand wines' average price/l topped the list, mainly because the country had relatively higher costs for grape planting and wine brewing and as such, New Zealand wine was positioned as a boutique wine. By contrast, Spanish wine had a larger price advantage compared to other countries' wines. For example, the average prices of Spanish bottled still wine and sparkling wine were USD2.06/l and USD2.17/l which were the lowest among all imported bottled still wines and sparkling wines respectively; its bulk wine, costing only USD0.57/l on average, was the second cheapest on the imported bulk wine list (Winesinfo.com, 2017).

Wine imports to China expect a brighter market prospect as import tariffs reduce and are even eliminated step by step. For example, the market share of New Zealand wine in China began to increase since the implementation of zero tariffs on wine imports since

2012, according to the free trade agreement (FTA) between China and New Zealand (Chinaidr.com, 2017). In particular, New Zealand's bottled wine exports to China in 2016 totalled approximately 2,139,029 litres valuing USD 20,877,308, making the country the ninth largest bottled wine exporter to China in the year (Winesinfo.com, 2017). As of January 1st, 2015, wine imported from Chile to China began a move towards zero tariff with only 10% of Goods and Services Tax (GST). As a result, China became the largest importer of Chilean wine in 2016 (Chinaidr.com, 2016) with about 1,461,000 hectolitres of imported volume (Winesinfo.com, 2017). IWSR anticipated that Chilean wine to China would reach 165.8 million cartons in 2020 (Li, 2017). Also, the China-Australia FTA shows that from 2019, Australian wine started to enjoy tariff-free access to China. It was projected by IWSR that from 2016 to 2020, the export growth rate of Australian wine to China would be 121%, and that Australia would supply 190 million cartons of wine to China in 2020 (Li, 2017). Again, Georgia started to export wine to China with a duty-free agreement from the second half of 2017. Without duty-free agreements, the combined tax rate for importing wine into China is 48.2%, including 14% of tariff; however, with zero tariffs, the payable tax for a CNY100-bottle wine can be reduced to about CNY34 for a bottle. This can be further beneficial for imported wine expanding its market share in China (Chinaidr.com, 2016). The increasing amount of imported wines with high quality and affordable prices will broaden Chinese wine consumers' horizons and arouse their interest in foreign wines. This will in return, help nurture potential customers for foreign wine MNEs investing in the Chinese wine industry.

Table 3.6 shows the top ten wine exporting countries in the Chinese market during the period from 2014 to 2017. Overall, first, this table includes wine producers from both the "Old World" and the "New World"; second, the nine most popular wine provider countries are France, Chile, Australia, Spain, Italy, South Africa, America, Portugal, and Argentina. Notably, most of these countries increased their wine exports to China each year. When considered individually, Germany was on the list in 2014 and 2015,

but was replaced by New Zealand in 2016. France and Chile were consistently the first and the second largest wine source countries from 2014 to 2016, and the sum of the volume supplied by these two countries to China exceeded half of the total wine volume that China imported. France, as a traditional wine producer, topped the list with significantly high volumes such as 2,313,170 hectolitres, 1,959,000 hectolitres, 1,706,000 hectolitres and 1,295,000 hectolitres of wine to China in 2017, 2016, 2015 and 2014 respectively. Wine imported from Australian surged to 1,439,930 hectolitres in 2017 from 409,000 hectolitres three years ago and overtook Spain to occupy third place in 2016 and second place in 2017 after remaining in fourth place in 2014 and 2015. Italy has stabilised consistently in fifth place. South Africa and America swapped sixth and seventh places from 2016. Portugal jumped from tenth in 2014 to eighth in 2015 and remained in this position. Argentina was in ninth place for the three years in a row from 2014 to 2016 but was caught up by Georgia in 2017 (Winesinfo.com, 2015a; 2016c; 2017; 2018a; Sohu.com, 2018). The Georgian example illustrates the strength of duty-free agreements in international wine trade. Only half a year after enjoying zero tariffs, Georgia made it into the top ten wine exporting countries to China in 2017, with a growth rate of approximately 40% in wine exports (China Alcoholic Drinks Association Wine Sub-Association & Exact Data, 2018).

Table 3.6 Top 10 China's wine importing countries (2014-2017)

In 1000hl

Ranking	Country	2017 Import by volume	Country	2016 Import by volume	Country	2015 Import by volume	Country	2014 Import by volume
1	France	2,313.17	France	1,959	France	1,706	France	1,295
2	Australia	1,439.93	Chile	1,461	Chile	1,539	Chile	908
3	Spain	1,341.20	Australia	1,049	Spain	776	Spain	495
4	Chile	1,305.88	Spain	937	Australia	686	Australia	409
5	Italy	370.08	Italy	324	Italy	289	Italy	253
6	South Africa	161.60	South Africa	159	America	128	America	166
7	America	107.66	America	133	South Africa	117	South Africa	70
8	Portugal	93.16	Portugal	75	Portugal	68	Germany	45
9	Georgia	50.56	Argentina	57	Argentina	51	Argentina	43
10	Argentina	50.54	New Zealand	21	Germany	44	Portugal	42

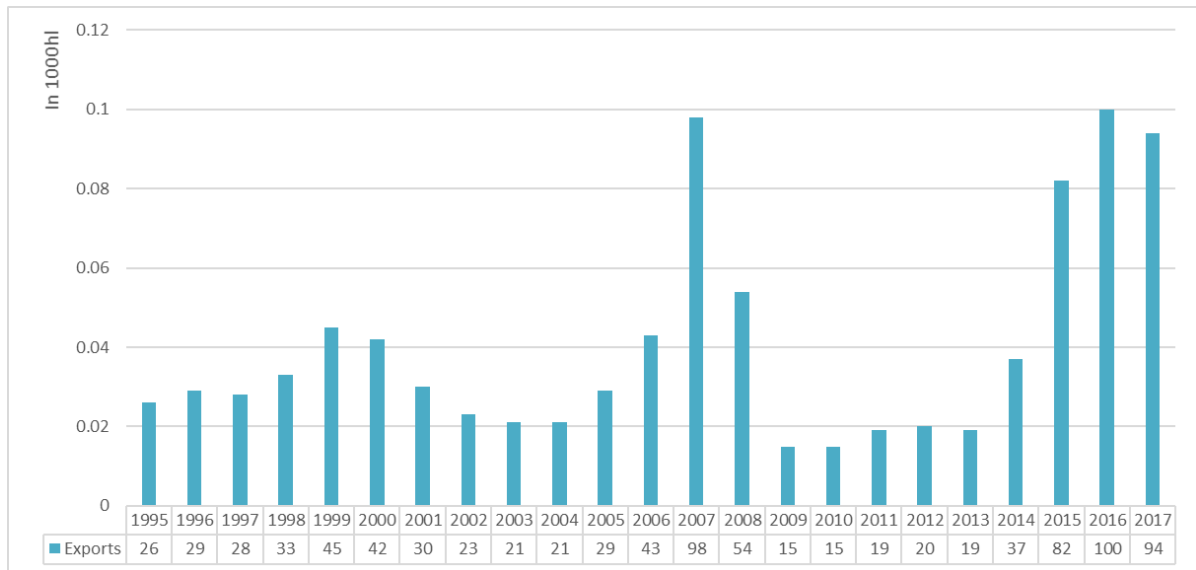
*Annual imported volume includes bottled wine, bulk wine and sparkling wine.

Source: Winesinfo.com, 2015a; 2016c; 2017; 2018a; Sohu.com, 2018.

As can be seen, China offers a huge and competitive market for foreign wines. The Chinese wine market is open to various kinds of foreign wines in terms of quality, price and origin of production. Thus, apart from purely importing wines, IFDI into the Chinese wine industry can, through exploring foreign O-specific advantages, resources and capabilities, either make wines using local wine grapes or bottle internationally-sourced bulk wines.

3.3.7 Wine exports

In terms of wine exports, the vast majority of Chinese wines are sold on the domestic market, and only a few are sold for export. These exported wines are being sold in other Asian regions, Europe, the Americas and Australia (Jenster & Cheng, 2008). Figure 3.10 shows China's wine exports from 1995 to 2017. Compared with the volumes of wine production (Figure 3.5) and imports (Figure 3.8) into China, the amount of wine exported is negligible. For example, the greatest volume of Chinese wine exports in a 23-year record from 1995 to 2017 was only 100,000 hectolitres in 2016, accounting for only about 0.76% of domestic wine production and 1.57% of wine imports in the same year (International Organisation of Vine and Wine, 2019b). Further, in comparison with approximate USD1, 978 million of Chinese wine imports (year-on-year growth rate of 37.76%) in 2015, Chinese wine exports by value in the year was only about USD413 million (year-on-year growth rate of 217.16%) (Winesinfo.com, 2016e). Hence, it is unsurprising that rarely, industry information or media reports can be found on China's wine exports. The low volume of Chinese wine exports indicates that the Chinese wine market is extensive enough to consume domestically-produced wines. Further, the poor performance of Chinese wine exports suggests that overall, China's winemaking skills are still relatively distant from the advanced level of developed wine-producing countries. This signals market opportunities that China can provide for foreign wine MNEs with competitive technological advantages.



Source: International Organisation of Vine and Wine, 2019b.

Figure 3.10 Wine exports from China (1995-2017)

There are a few Chinese wine companies that have started strategically exploiting the international wine market. For example, by 2017, Ningxia wine region has had five local wineries that exported their wines to more than 20 foreign countries including Germany, France, the UK, the US, Australia, Singapore and UAE (NXNEWS.NET, 2017), though in very small volumes. In February of 2019, Great Wall (Ningxia), for the first time, exported wine in batches. There were 2,337 cases of bottled wines with 11870 litres that cleared customs in France; and the second batch to France was undergoing customs declaration (Chinanews.com, 2019b). Looking at Penglai wine region, by 2017, it has had eight wine enterprises which exported their wines to foreign markets (Phoenix New Media, 2017). Furthermore, Changyu, the leading wine-producer in the Chinese wine industry, by 2019, has sold its wines in more than 70 foreign countries (Cnwinenews.com, 2019).

Exporting wines, as an advertising method, on the one hand helps China's domestic consumers build trust, confidence and a sense of pride for Chinese wines, so as to expand potential domestic market for wines made in China. On the other hand, exports showcase Chinese wines on the international stage, and thereby send a message to

foreign investors that China can make quality wines and may attract IFDI into the Chinese wine industry.

3.4 Conclusion

This chapter establishes the context of this study to highlight the L-specific advantages that the Chinese wine industry offers for IFDI. Correspondingly, the chapter also explains the value of the study context for understanding the extent and process of IFDI impacting the Chinese wine industry. The Chinese wine industry as a prospective investment environment provides foreign and domestic investors with attractive L-specific advantages, in particular, terroir and market. It has been shown that China has wine regions producing quality wine grapes with local features different from that of the “Old World” and the “New World”; and that China has a massive potential wine market that is sought after by both foreign and Chinese investors. IFDI has a catalyst role in the development of the Chinese wine industry through Sino-foreign wine JVs and wholly foreign-owned wine affiliates. One of the Sino-foreign wine JVs, Changyu is now the fourth largest wine company worldwide. With the world’s second largest vineyard area (International Organisation of Vine and Wine, 2018), China is the world’s 7th largest wine producer (International Organisation of Vine and Wine, 2018) and the fifth largest wine-consuming country (Ecns.cn, 2014; International Organisation of Vine and Wine, 2018; 2019a).

However, China is not a traditional wine-consuming country. Chinese wine firms do not have O-specific advantages in terms of winemaking and winegrowing. Most Chinese wine firms remain underdeveloped in terms of technology, skills and expertise of vineyard/winery business. Considering that it requires solid financial strength and comprehensive abilities to invest in wine industries overseas and seek foreign resources and capabilities, the vast majority of Chinese wine firms cannot afford these costs. Instead of operating at a distance from China’s terroir and market, IFDI, therefore, can

play an important role and contribute to the development of the Chinese wine industry through the transfer of foreign O-specific advantages, resources and capabilities to domestic firms. Sino-foreign communication and collaboration can enable Chinese partner firms to upgrade their resources and capabilities and begin to forge their own O-specific advantages. The process and means by which the catalyst role of IFDI, however, remains subject to very little research at the industry or firm level. The following chapter will discuss the research methodology and methods that are employed for further exploring how IFDI has impacted firms in the Chinese wine industry and consequently, the entire Chinese wine industry.

Chapter 4 Research methodology and methods

4.1 Introduction

The preceding chapters expounded the theoretical frameworks for the study, and discussed the context of the Chinese wine industry to demonstrate its L-specific advantages for foreign investors. This chapter describes and explains the rationale for the methodology and methods that have been chosen in order to answer the research questions about the impact of IFDI on firms in the Chinese wine industry and consequently, the whole Chinese wine industry. Firstly, the chapter discusses the rationale for the choice of a qualitative approach. Secondly, the discussion examines the role of the researcher, the rationale for the use of the funnel approach in the qualitative study design, and outlines methods to establish research validity and reliability in qualitative studies. Thirdly, the research method, a single-case study with embedded multiple subunits of analysis, is explained. Fourthly, the data collection methods of in-depth interviews and a review of secondary data are explained. Finally, the section on data analysis sets out the data analysis techniques that are employed, including coding, clustering and matrices. An explanation is provided about the use of abductive reasoning to examine inferences gained from the empirical data.

4.2 The choice of a qualitative approach

4.2.1 Rationale for a qualitative approach

A qualitative approach is well suited to an inquiry that seeks an in-depth understanding of phenomena and the perceptions and experiences of research participants. Qualitative studies aim to uncover the narratives that lie behind information and statistics. The capacity that is offered by a qualitative approach to probe specifics, make it an appropriate choice for this study which has a particular interest in exploring process. In

a qualitative study, the research design is driven by unstructured data and critically responsive to changes in conditions and situations (Hammersley, 2013). Accordingly, qualitative research methods have the flexibility (Hammersley, 2013) to probe information provided by participants and illuminate their stories. The research process is subjective (Hammersley, 2013), in the sense that it explores how people see and understand their experience. One form of analysis that can be employed in qualitative research is narrative analysis which is particularly appropriate for investigations based on a small number of cases (Hammersley, 2013). A qualitative approach is characterised by event process focus, context-specific, participant interaction, and thematic emphasis (Marschan-Piekkari & Welch, 2004). Compared to a quantitative approach, a qualitative approach provides a more holistic view for researchers to examine phenomena contextually (Marschan-Piekkari & Welch, 2004). Qualitative researchers can typically obtain richer information and may detect more meaningful connections between key factors (Wright, 1996).

Another advantage of a qualitative approach is that it facilitates theory-building during the research process (Doz, 2011; Eisenhardt, 1989; Weick, 1989; Yin, 1989; 1994). Qualitative research provides rich descriptions of real-life phenomena, encourages in-depth insights (Weick, 1989; 2007), and uncovers the substance and essence as researchers suggest propositions. Employing a qualitative approach helps researchers avoid unconsciously filtering previously unperceived, unknown and unbelievably phenomena, and instead build conceptual understandings by constantly comparing data (Doz, 2011). During the process of conducting qualitative research, conceptual insights evolve in researchers' minds, and iteratively and recursively interplay with cumulative data (Weick, 1989). Rich qualitative research limits the tendency to rely excessively on already known theories and as a result allows greater possibility for conceptualisation (Doz, 2011). Maykut and Morehouse (1994) also agree that qualitative research is deemed to be the most appropriate for research with an objective to develop new concepts in a specific context.

These features of qualitative research make it well suited to this study, in particular, the capacity of a qualitative approach to generate theory-building. This aligns well with the goal of this study to contribute to the generation of a framework or model on the process of the transfer of O-specific advantages, resources and capabilities from foreign affiliates to local firms in the Chinese wine industry. Questions focused on "how" require an exploratory strategy and a specific investigation, both of which are provided by qualitative research (Hesse-Biber & Leavy, 2006). Further, according to Strauss and Corbin (1990), a qualitative approach is helpful for comprehending phenomena which have not been investigated before. This is apposite for this study as there is a paucity of research that has been conducted on IFDI in the Chinese wine industry, particularly on the relationship between FDI and firms in the Chinese wine industry. The novelty of this study also resides in the goal to explore the impact of FDI on firms in the Chinese wine industry by examining the inter-firm transfers of O-specific advantages, resources and capabilities from foreign affiliates to local firms over time, with a focus on the transfer processes.

There are a number of other features of this study that make it well-suited to a qualitative approach. The method chosen to gain insights into IFDI's impact on firms in the Chinese wine industry and then the whole Chinese wine industry, is conducting in-depth interviews. Interviews will be conducted with respondents from a group of firms with FDI engagement (e.g., Sino-foreign wine JVs and wholly foreign-owned wine firms), and with collaborations with foreign affiliates (e.g., the local strategic alliance partners of Sino-foreign wine JVs and wholly foreign-owned wine firms, as well as suppliers and distributors in the local wine supply chain) in the Chinese wine industry. In terms of data analysis, a qualitative approach, compared with a quantitative approach, is suited to analysing a large amount of narrative material, for example interview transcripts that need scrutiny. Additionally, the sample size (i.e., the number of firms to be interviewed) of this study, compared to the large number of firms (e.g., over 450 Chinese wine-producing firms by the year of 2018) in the Chinese wine

industry, is relatively small with its focus on firms engaging in collaborations with IFDI in the industry.

Finally, the choice of a qualitative approach was also determined by practical exigencies. At the time of writing, there is no macro-statistical data regarding IFDI and OFDI in the Chinese wine industry^{vii}. The researcher asked wine professionals and wine bureau officials about the existence of macro data on FDI. However, they confirmed that at the time, there were no related macro-statistics because the wine industry was still a very small sector in China and its output value was nearly negligible in the nation's GDP. Thus, contrary to the original intention of this study, FDI data could not be used to better understand the development stage of the Chinese wine industry based on its NOI position as per the IDP framework. Instead, significant features of the industry have been observed and described through archival and interview data. In addition, it should be noted that the choice of a qualitative approach, partly determined by practical realities, is also supported by the argument that a qualitative approach is better suited to the specific content of intra-/inter-firm knowledge transfer, as discussed in the work of Easterby-Smith, Lyles and Tsang (2008).

Based on all the above considerations, a qualitative approach was chosen for this study.

4.2.2 Role of the researcher

In qualitative studies, researchers should be considered as data-collecting instruments (Denzin & Lincoln, 2003) and observers of phenomena (Punch, 1998). This requires qualitative researchers to be as objective as possible and identify their own potential bias and assumptions. Bias, guessing, anticipation and experience influence qualitative researchers' abilities to carry out research (Greenbank, 2003). Further, a qualitative approach requires researchers to investigate in a "natural" environment, and no variable should be manipulated. That is to say, researchers need to record and collect

information accurately and comprehensively as they observe, and need to be vigilant about their own assumptions, limitations, bias or suppositions (Wiersma, 1995; Heath, 1997).

Correspondingly, it is considered imperative to strive to minimise subjectivity in relation to information and perceptions offered by interviewees. In this study, the researcher tried to identify and constrain her preconceived ideas in relation to different opinions on the same questions, in case informants might offer emotional or biased comments. It is also important to strive for objectivity while conducting the interviews. During the interview process and the collection of other reference materials, the researcher's own thoughts about the research questions were formed, based on accumulated impressions. Consequently, the researcher needed to avoid potentially leading hints when interacting with respondents, so as to avoid suspicion of manipulating interviewees. To maintain the integrity of data, the researcher aimed to transcribe interview records as completely and accurately as possible in order to build a comprehensive database for analysis. Lastly, in the data analysis phase, the researcher's goal was to capture the information on the database as precisely as possible, in order to avoid speculative interpretation and comments.

4.2.3 Funnel approach design: Initiating qualitative study

A "funnel approach" was selected to begin this study. This approach involves taking a broad view of a topic, then narrowing it down to a specific issue (Palinkas, Horwitz, Green, Wisdom, Duan & Hoagwood, 2015). In other words, the study investigates the breadth of the topic first, then examines the topic in depth (Glaser, 1978; Bernard, 2011). The "funnel approach" is recommended by qualitative methodologists as a strategy when carrying out semi-structured interviews (Spradley, 1979), in particular.

In line with this thinking, a qualitative study adopts a particular approach to identifying the research questions. There is a preliminary plan which is flexible enough to make adjustments as data collection and analysis progress. The preliminary plan typically includes general or open-ended research questions, and they are normally redefined or reframed as the study goes deep (Jaglal, Carroll, Hawker, McIsaac, Jaakkimainen, Cadarette, Cameron & Davis, 2003; McMillan & Schumacher, 1993). In this study, four research questions were identified while selecting the initial research context (i.e., the Chinese wine industry) and subject (i.e., the impact of IFDI on firms in the Chinese wine industry and consequently, the entire Chinese wine industry). As the study of relevant documentation proceeded, the research direction has been adjusted with a more precise emphasis, and consequently, the interview questions have been developed in more detail. This process facilitates the generation of robust and solid conclusions for the research, as well as unique theoretical contributions for international business studies.

4.2.4 Establishing the validity and reliability of the qualitative study

The validity and reliability of data help to ensure the rigour of qualitative research. Validity includes construct validity, internal validity and external validity. In order to create a valid qualitative study, it is essential to follow core principles such as triangulation and member checking (Gall, Borg & Gall, 1996).

In the data collection phase, in order to increase construct validity, researchers can adopt different strategies for collecting data from various sources for studying the same phenomenon. One important strategy can be the triangulation of data collection methods such as interviews, documents, observations (Creswell & Miller, 2000; Denzin, 1989; 2000; 2003; Gibbert & Ruigrok, 2010; Hammersley & Atkinson, 1995; Knafl & Brcitmayer, 1989; Seale, 1999), resources (i.e., participants) and theories (Denzin, 1978; Farmer, Robinson, Elliott & Eyles, 2006; Knafl & Brcitmayer, 1989).

Triangulation refers to using more than one qualitative research instrument (Denzin, 1970; 2012; Graham, 2005) to help researchers overcome bias appearing between different units of analysis and theoretical frameworks (Begley, 1996; Murray, 1999; Sim & Sharp, 1998), and increase confidence in study findings (Jick, 1979; Murray, 1999). Triangulation can also enhance the understanding of the phenomenon and the validity of interpretations (Torrance, 2012) by systematically sorting data, comparing insights, and exploring common themes (Creswell & Miller, 2000; Farmer et al., 2006). Further, triangulation helps ensure that all different perspectives regarding the same phenomenon are examined (Knafl & Brcitmayer, 1989). In order to build trustworthiness, this research will, on the basis of a solid theoretical foundation and discussion, utilise multiple data sources (i.e., interviews, archival documents, media reports and observations) and participants from various relevant organisations to create valid findings.

In the data analysis phase, internal validity focuses on the logic and causality between variables and consequences (Cook & Campbell, 1979; Gibbert & Ruigrok, 2010; Yin, 1994). In order to ensure the internal validity of a case study, research frameworks need to be developed from relevant literature (Gibbert & Ruigrok, 2010). External validity applies in the study-case selection phase. Researchers are required to report the rationale for the sample choice by demonstrating how representative the selected case (i.e., an organisation or an industry) is for the study topic (Cook & Campbell, 1979; Gibbert & Ruigrok, 2010). In order to achieve external validity, this study will employ purposeful sampling and a snowballing approach (see section 4.4.1.2.2) by adopting key criteria for selecting participants (see section 4.4.1.2.1). To ensure internal validity, the findings chapter (i.e., Chapter 5) will scrutinise data that emerges from the study so as to discover and interpret the theoretical significance and contributions from the phenomenon.

In addition to validity, reliability is also an important research consideration. Ensuring the reliability of case studies requires transparency and replication (Gibbert & Ruigrok, 2010). Transparency can be achieved by rigorous documentation and research protocols (Gibbert & Ruigrok, 2010; Meijer, Verloop & Beijgaard, 2002) while replication encourages the establishment of databases for retrieval by investigators (Leonard-Barton, 1990; Yin, 1994). Tools for increasing reliability of data and results, mainly include interview recording, accurate coding of information for open-ended questions, and interview transcription and long extracts of data (Silverman, 2005). The most vital technique for researchers to establish credibility for case studies is member checking (Lincoln & Guba, 1985). Member checking means that interview data and analysed results of qualitative studies are sent back to respondents for validating, verifying or reinforcing accuracy (Birt, Scott, Cavers, Campbell & Walter, 2016; Creswell & Miller, 2000; Doyle, 2007; Farmer et al., 2006; Goulding, 2002; Guba & Lincoln, 1989; Hammersley & Atkinson, 1995; Lincoln, 1995; Lincoln & Guba, 1985; 2000; Miles, 1979; Nag, Hambrick & Chen, 2007). This study attempted to follow all these research protocols aimed at achieving reliability. Significantly, some of the raw data (e.g., interview transcripts), narrative accounts and a summary of findings of this study were provided to participants (i.e., interviewees) for an accuracy review.

As has been explained, research design, data collection and data analysis processes all followed the protocols that are deemed to be necessary to ensure a valid and reliable qualitative research.

4.3 Research method - Case study

4.3.1 Rationale for the choice of a case study method

Yin (1994) points out the main factors that determine the appropriateness of a case study approach: research purpose, research question type (i.e., open-ended,

semi-structured or structured), research circumstances and the utilisation of historical and contemporary materials. Qualitative researchers study real-life phenomena using case studies (Pavlovich, 2000; Stake, 1995; Yin, 1989; 1994; 2009; 2014). The Merriam-Webster dictionary (2009) defines a case study as “an intensive analysis of an individual unit (as a person or community) stressing developmental factors in relation to environment.” The definition highlights three technical features: in-depth examination (Flyvbjerg, 2011), contextuality and multiple variables (Ghauri, 2004; Yin, 2014).

This study employs a case study method based on four considerations. First of all, the case study method is widely utilised when conducting qualitative research (Pavlovich, 2000) and international business research (Ghauri, 2004; Yin, 2014). For example, case studies have been used in international business administration and international management science; and it is a method that helps to retain the holistic characteristics of organisational systems, managerial processes and industrial maturation (Yin, 2014). Other scholars also claim that the case study method is suitable for process-oriented studies because of its flexibility and global nature when describing processes (Hyder & Abraha, 2003), as well as sensitivity towards the richness and subtlety of a phenomenon (Ring & Van de Ven, 1994). In particular, Duanmu and Fai (2007) suggest the appropriateness of applying a case study method for studying knowledge transfer process between collaborative partner organisations. Thus, a case study method is especially apposite for the focus of this study. This study examines the transfer process of O-specific advantages, resources and capabilities from foreign affiliates to local firms in the Chinese wine industry, so as to contribute to international business research on IFDI’s impact on firms in the Chinese wine industry.

There are also other reasons for the choice of a case study method. According to Ghauri (2004) and Yin (2014), the case study approach can be regarded as the preferred method in research that mainly aims to address “how” and “why” questions which are exploratory and explanatory and need a deep consideration. The use of a case study has

the potential to deepen a researcher's understanding of a phenomenon that is being investigated by studying a variety of opinions, across different variables and covering a period of time (Ghauri 1983). In this respect, the case study approach fits well with the objectives of this research. This study aims to explore how FDI has impacted firms in the Chinese wine industry and consequently, the whole Chinese wine industry.

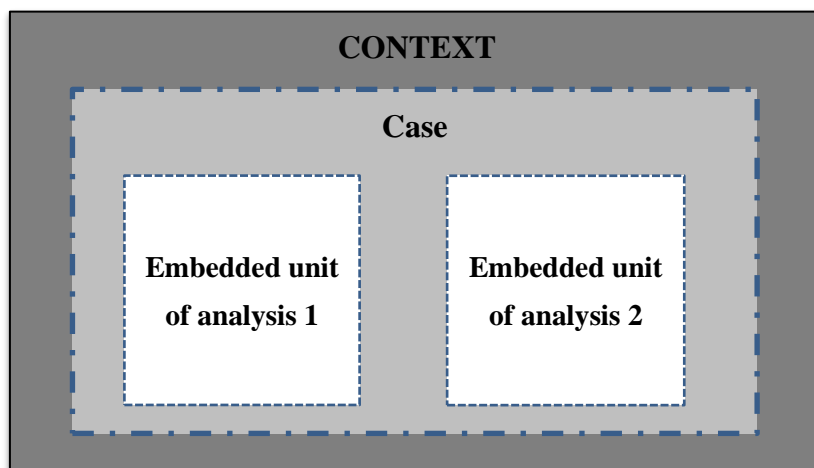
Historically, foreign investment has played an important role in the evolution of the wine industry in China by enabling the establishment, restructuring and development of winemaking enterprises. Thus, the case study approach provides an opportunity to observe longitudinally-selected Chinese firms in-depth, including their inbound FDI involvement and the influence of IFDI at the firm-level as well as at industry-level over time.

Additionally, the case study method is a specialist approach used to investigate phenomena which are closely connected to their original specific environment (Yin, 1994; Ghauri, 2004), and to provide contextualised explanations (Welch, Piekkari, Plakoyiannaki & Paavilainen-Mäntymäki, 2011). As such, it is particularly suited to research in the international business context (Ghauri, 2004). The development of firms in the Chinese wine industry is rooted in the China-specific political, economic, societal and cultural settings, and has been profoundly influenced by these factors, in addition to the impact of foreign investment.

Finally, the case study is a method that enables researchers to probe a target phenomenon consisting of multiple dimensions and then interpret this cohesively and comprehensively (Selltiz, Wrightsman & Cook 1976). Case studies contribute to theory-building by tracking changes, without being limited to statistics (Yin, 2014). This is an advantage for this study as the data collection process involves multiple sources such as documentation, personal interviews, observation and oral reports (Ghauri, 2004). Section 4.4 outlines the data collection process in more detail.

4.3.2 A single-case study with embedded multiple subunits of analysis

Ghauri (2004) indicates three situations in which single case design can be employed. These are where the single case interprets an existing theory, provides significant insights, and is representative. According to Yin (2014), one major rationale for employing a single-case study is that the case typically captures common features and circumstances of similar examples, and the learning from the case is presumed to be informative or enlightening for ordinary people. Further, the incorporation of subunits extends analysis and deepens the understanding of the single case. However, one pitfall of a single-case with embedded multiple units of analysis that needs to be avoided is that it is easy to lose sight of a holistic view of the single-case when the study focusses too much on the subunits. Thus, it is necessary for researchers to bear in mind that the initial phenomenon of interest is the research target but not context. Figure 4.1 illustrates the model of a single-case study with embedded multiple subunits of analysis.



Source: Yin, 2014

Figure 4.1 The model of a single-case study with embedded multiple subunits of analysis

This thesis adopts a single-case study with embedded multiple subunits of analysis. The single case of the study is the Chinese wine industry while the multiple subunits of analysis are firms including wine producers, suppliers, distributors and collaborative partners in the local wine industry supply chain. The research target is the impact of IFDI on the Chinese wine industry. To achieve the research target, the study investigates the impacts of IFDI on firms, with a focus on Sino-foreign inter-firm linkages and the consequent transfer of O-specific advantages, resources and capabilities from foreign affiliates to local firms in the Chinese wine industry. Again, multiple subunits of analysis lead to multiple data collection methods and sources of evidence which help to achieve the following benefits: a) enrich the single case study with details covering different aspects of the phenomenon as comprehensively as possible, b) sustain constant comparisons across subunits, c) form an evidence chain for studying the process of resource and capability transfers, and d) reinforce the validity, reliability and credibility of the qualitative study. Thus, the analysis of interactions between IFDI and local firms in the Chinese wine industry extends the analysis and deepens the understanding of IFDI's impact on the Chinese wine industry.

4.4 Data collection

In order to ensure the validity of data (Campbell & Fiske, 1959) and the credibility of findings and conclusions (Yin, 1989; 2014), as well as reduce the possibility of misinterpretation (Ghauri, 2004; Pauwels & Matthyssens, 2004), there are two sources proposed for data collection: a) in-depth personal interviews for primary data, and b) documentation review for secondary data. Interviewing is a powerful technique for international business research (Daniles & Cannice, 2004), in particular for a qualitative case study (Welch et al., 2011) which is exploratory (Cohen & Manion, 1989; Page & Meyer, 2000). Through context-specific descriptions provided by interviewees, an evidence chain for a phenomenon or processes of interest can be established (Cohen & Manion, 1989; Lindlof & Taylor, 2002; Page & Meyer, 2000). Secondary research

based on documentary sources provides an overview of the study of interest and provides supplementary evidence for making links between the phenomenon of interest and possible findings (Yin, 2014). However, it is always necessary to verify if the secondary materials have practicality and validity (Yin, 1994). In-depth personal interviews and documentation review are the two most commonly-employed case study data collection methods (Merriam, 1988; Ghauri, 2004) which enable researchers to analyse well-documented phenomena from a global view (Bryman, 1989; Chetty, 1996). Appendix 4.1 shows types of data to be collected and corresponding methods under each research question. It can be seen as the guide for the researcher to collect data and form answers in response to the research questions.

4.4.1 In-depth personal interviews

4.4.1.1 An overview of the interview process

There are two main purposes for utilising interviews to collect data: a) gathering unique interpretations from interviewees, and b) obtaining information that is unable to be found by researchers themselves (Stake, 2010). Semi-structured one-on-one in-depth interviews were conducted (except for two interviews with two respondents each). Interview questions addressing the broad research questions were designed in advance, but asked in an open-ended way. The whole process was organised as a conversation around the PhD topic and with enquiries from the researcher, letting interviewees comment and tell stories. By doing so, themes began to arise as relevant information emerged (Kvale, 1996). On the other hand, interview questions were systematically structured, to ensure all principal theoretical concepts were examined and consistent across all the interviews (Kvale & Flick, 2007).

A total of 48 interviews (and 3 pilot interviews) were conducted across five months from Oct 2017 to February 2018. Of these, 42 interviews were conducted face-to-face, while nine were conducted online (Appendix 4.2). For the face-to-face interviews, the

researcher visited interviewees in person at their wineries and companies in six cities of China namely Yinchuan, Shanghai, Yantai, Penglai, Guangzhou and Shenzhen, as well as an interviewee in Blenheim, New Zealand^{viii}.

During the pre-interview contact stage, interview guidelines were carefully prepared in Chinese and English languages separately. A copy of the interview guidelines was sent to potential interviewees via email and WeChat to assist them to obtain an overall idea about the research topic and potential questions, as well as for them to make a final decision on participation. Ultimately, 50 interviewees participated in interviews and two potential candidates withdrew due to personal reasons. These 50 interviewees received a copy of the interview questions electronically, about one month before the interviews formally started.

In terms of interview duration, 14 interviews lasted about 121-185 minutes, 28 interviews lasted about 60-120 minutes, and six interviews lasted < 60 minutes (Appendix 4.2). All interviews were recorded by using a digital recorder with the aim of subsequently transcribing interview data and referring back to the interviewees' responses later if necessary. All 48 interviews were transcribed in word documents; of these, 45 interviews were carried out in Chinese and so were transcribed in Chinese first, then were translated into English. The remaining three interviews were transcribed directly in English as they were conducted in this language.

When reviewing transcripts of interview data, it was found that 39 interviews focused on the direct relationships between foreign wine affiliates and local Chinese firms, including wine enterprises, suppliers, distributors and alliance partner firms. Another nine interviews showed indirect linkages between foreign wine affiliates and local Chinese firms but contributed information for industry background understanding. For example, these nine interviews were conducted with investors, top managers and chief winemakers from local Chinese wine firms with Sino-foreign collaborations. Their

Sino-foreign collaborations mainly comprised contracting jobs with foreign winemaking consultants, exporting and importing wines, and selling wines for foreign wineries on a commission basis. These reflected demonstrable broader effects of IFDI in the Chinese wine industry.

Finally, all interview audio recordings, transcripts and interviewees' information are backed up and stored safely on the researcher's personal laptop and university office computer. These records have only been used for this thesis, and can only be accessed by the researcher and her supervisors.

4.4.1.2 Participants

4.4.1.2.1 Key criterion for selecting participants

The key criterion for selecting participating organisations is evidence of direct and indirect linkages between the organisations and foreign direct investment. In a wine industry supply chain, segments with a direct linkage with foreign direct investment include: a) Sino-foreign wine JVs and b) wholly foreign-owned wine affiliates.

Segments with an indirect linkage with foreign direct investment include a) Chinese wineries with Sino-foreign collaborations, b) upstream firms in the Chinese wine industry supply chain (e.g., suppliers of wine grapes/equipment/corks/bottles/barrels/enological excipients/labels/packaging/winemaking consulting services), and c) downstream firms in the Chinese wine industry supply chain (e.g., wine distributors/wine education agencies). Additionally, another two segments which play an important role in creating the environment for foreign direct investment include: a) local government and b) China's wine associations & research institutes.

4.4.1.2.2 Purposeful sampling and snowballing approach

Purposeful sampling requires key informants to be able to help identify cases with rich and useful information (Lincoln & Guba, 1985; Suri, 2011). Thus, purposeful sampling

was used to choose the most relevant organisations and interviewees who could contribute valid and reliable information relating to this study's research questions (Guest, Bunce & Johnson, 2006; Patton, 2002) about how IFDI impacted firms in the Chinese wine industry. One of the strategies of purposeful sampling is called snowball sampling (Suri, 2011). The selection process for this study followed a snowball approach whereby the contacts and colleagues of initial interviewees were contacted, and, where possible, interviewed, until the responses began to converge (Miles & Huberman, 1994). That is to say, key interviewees were first identified and then asked to recommend other possible informants. In this process, data was collected, compared and analysed simultaneously and iteratively across informants and over time. New informants who could also provide important insights were sought based on recommendations of prior informants. As a result, data became increasingly relevant and focused towards an emergent theory while it was being gathered. The data collection process was stopped once it reached theoretical saturation (Glaser & Strauss, 2017; Goulding, 2002; Liamputtong & Ezzy, 2005), meaning that there was no further explanation generated for the given research interest. This sampling approach has the same processual goal as abductive reasoning. It is especially valuable to borrow experts' wisdom to identify suitable informants (Suri, 2011).

4.4.1.2.3 The composition of participating organisations and interviewees

Appendix 4.2 provides a summary of participating organisations and interviewees. As can be seen, this study includes a wide range of respondents, covering nearly all key segments of the Chinese wine industrial chain. The interviewees are from four Sino-foreign wine companies, three wholly foreign-owned wine affiliates, nine Chinese local wine firms with Sino-foreign collaborations, 17 local wine industry suppliers, three wine distributors, 10 other wine-related institutions. The local wine industry suppliers include manufacturers and agencies for oenological machinery, oak barrels, oenological excipients, wine label design and printing, wine bottles, corks, packing,

rubber caps and grape plantations. The wine-related institutions include government wine bureaux, wine associations, universities and winemaking consultancies. The vast majority of the 50 participants (three are foreign experts) for this study are senior professionals and are familiar with and/or in charge of Sino-foreign collaborations in the Chinese wine industry. In 2017, 30 out of 50 respondents have 10 to 28 years of vine and wine professional experience in China; 17 out of 50 have worked in the Chinese wine industry for five to nine years and only three have worked for less than five years. Further, these interviewees hold professional positions such as owners or top managers of the participating enterprises, chief winemakers, senior winemaking consultants, oenological professors and researchers, and officers in government wine bureaux and wine associations. They are experts of wine business in areas such as M&A, common governance, management, technology, techniques and marketing.

These interviewees are divided into six categories (see Appendix 4.3), and every group of respondents is expected to answer interview questions from a specific perspective. For instance, Category A includes investors, top managers and chief winemakers from Sino-foreign wine JVs. These participants are asked questions about how foreign MNEs through equity JVs contribute to the upgrading of their local Chinese collaborative partners and the consequent development of the Chinese wine industry. The questions have two foci: a) how local Chinese wine firms, as the Chinese JV partners, leverage new O-specific advantages, resources and capabilities from their foreign JV partners; and b) how local Chinese collaborative firms (e.g., suppliers, distributors and alliance partners), via non-equity-based linkages with Sino-foreign wine JVs, leverage foreign resources and capabilities.

Category B includes top managers and chief winemakers from wholly foreign-owned wine firms. These participants are requested to answer interview questions about how wholly foreign-owned wine affiliates through non-equity-based linkages contribute to

the upgrading of their local Chinese collaborative partner firms and the consequent development of the Chinese wine industry. Category C consists of investors, top managers and chief winemakers from local Chinese wine firms with Sino-foreign collaborations. These participants are requested to provide information about collaborations with Sino-foreign wine JVs/wholly foreign-owned wine firms in China. However, most of their Sino-foreign collaborations do not have IFDI involvement.

Category D includes owners and top managers of upstream firms in the Chinese wine industry supply chain (e.g., suppliers of wine grape, equipment, oenological excipients, corks, barrels, bottles, labels, packing and winemaking consulting services). Category E includes owners and top managers of downstream firms in the Chinese wine industry supply chain (e.g., wine distributors and wine education agencies). As suppliers and distributors, participants from these two categories are invited to answer interview questions about how local Chinese firms, through non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates, leverage foreign resources and capabilities.

Lastly, Category F consists of officials from China's wine regional governments, and experts from wine associations, wine research institutes and universities. These participants do not have business connections with Sino-foreign wine JVs/wholly foreign-owned wine firms in China. However, they are selected because of their observation of the evolution of the Chinese wine industry. With a wealth of professional experience, they are in a position to comment, with profound and valuable insights, on issues regarding the impact of IFDI at both firm and industry levels. It is considered that their contributions could enhance the validity, reliability and credibility of the research.

4.4.1.3 Interview guide

A two-part interview guide is prepared. The first part is designed to collect information about interviewees' professional backgrounds. On the basis of this information, the

researcher could ascertain the relevant experience of the interviewee and anticipate the potential depth of the interview. As can be seen from Appendix 4.3, there are eight aspects that this part covers: a) interviewee's name, b) interviewee's organisation, c) when the organisation was established, d) corporate form, e) interviewee's position, f) how long the interviewee has been working in the Chinese wine industry, g) how long the interviewee has been working for this organisation, and h) how long the interviewee has been working in this position.

The second part of the interview guide consists of open-ended interview questions designed on the basis of the literature review and the researcher's preliminary investigation, with the purpose of seeking answers to the research questions. As can be seen from Appendix 4.3, firstly, the interview questions mainly cover five aspects. The first aspect is about O-specific advantages, resources and capabilities of foreign wine affiliates and local wine firms. This part mainly examines O-specific advantages, resources and capabilities that are transferred and shared between Sino-foreign JV partners by asking "what the foreign and Chinese investors have contributed to the JV, in terms of physical and intangible assets". It can be seen as a question regarding foreign O-specific advantages, resources and capabilities that IFDI has brought to the Chinese wine industry via equity-based inter-firm linkages, focusing on "what". Thus, this set of data will answer RQ1 from an equity-based perspective.

The second aspect intends to seek answers about equity-based inter-firm linkage and leverage as well, but focuses on the leverage process and is designed specifically to explore how O-specific advantages, resources and capabilities are transferred and shared between Sino-foreign JV partners. This aspect is investigated through looking at Sino-foreign collaborations within wine JVs from seven specific perspectives. For example, questions include matters such as a) how to establish the JV and then manage the business, b) how to improve staff skills and capabilities, c) how to manage cultural differences, d) how to access markets, e) how to adapt to market structure, f) how to

adapt to institutional environment, and g) how to deal with issues regarding conflicts between technology transfer and patents. As participants share stories in response to these interview questions, the transfer process of O-specific advantages, resources and capabilities from foreign affiliates to Chinese JV partners will be mapped out. Consequently, it is hoped that the responses to these questions will help to provide answers to RQ2 from an equity-based perspective.

The third aspect includes a group of interview questions for collecting data around non-equity-based inter-firm linkages and leverage. These questions look at direct linkages between a) Sino-foreign wine JVs/wholly foreign-owned wine firms and local Chinese firms in the upstream of the local supply chain, b) Sino-foreign wine JVs/wholly foreign-owned wine firms and local Chinese firms in the downstream of the local supply chain, and c) Sino-foreign wine JVs/wholly foreign-owned wine firms and local Chinese alliance partner firms in the Chinese wine industry. These questions aim to investigate how resources and capabilities are transferred from Sino-foreign wine JVs/wholly foreign-owned wine firms to local Chinese firms by asking “what resources and/or assistance the JV provides to its local (Chinese) suppliers/wine distributors/wine education agencies/alliance partners”. Additionally, the transfer processes, namely “how these transfers are achieved” are also examined through questions such as “has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.)?” and “does the JV prefer to import (intra- or inter-firm) goods, equipment and services from overseas or procure them locally?” Thus, this set of data will address RQ1 and RQ2 from a non-equity-based perspective.

The fourth and fifth aspects include interview questions that solicit interviewees’ opinions on the upgrading of O-specific advantages, resources and capabilities of local firms over time, and the impact of IFDI on the Chinese wine industry. These two sets of data will provide answers for RQ3 and RQ4.

Furthermore, interview questions for Categories D, E and F of respondents are designed slightly differently by adding interviewee-specific contents and omitting unnecessary or unsuitable points, because these respondents might have different focuses from respondents from Categories A, B and C, when observing IFDI in the Chinese wine industry. For instance, instead of asking about physical and intangible assets that foreign investors have contributed to JVs, Category F interviewees (viz. officials from China's wine regional government, as well as experts from wine associations, wine research institutes and universities), are asked "what benefits foreign investors can bring to Sino-foreign wine JVs or Sino-foreign collaborations in the local wine industry?", "if these benefits eventuated?" and "what benefits that the local government hoped for have not eventuated?". Another example is that in addition to the question "what resources and/or assistance wineries provide to suppliers and distributors?", Category D (viz. suppliers) and E (viz. distributors) interviewees are encouraged to describe "the impact of collaborating with Chinese wineries, Sino-foreign wine JVs and wholly foreign-owned wine affiliates", and then to compare "the differences between collaborations with these three types of enterprises".

The last example is that regarding questions concerning "influence that IFDI has produced to the local wine industry", Category F interviewees (viz. officials from China's wine regional governments, and experts from wine associations, wine research institutes and universities) are expected to share their perceptions about the overall impact of IFDI on the Chinese wine industry. They are required to calculate "the numbers of Sino-foreign wine JVs, wholly foreign-owned wine affiliates and foreign experts in the local wine industry", and analyse "contributions that foreign experts have made to the development of the local wine industry" and "influence that Sino-foreign wine JVs, wholly foreign-owned wine affiliates and Sino-foreign collaborations have brought to other players in the local wine industry".

Moreover, prompts are included in the interview guidelines. The first type of prompt is designed for when interviewees answer questions about the physical and intangible assets that Sino-foreign JV investors have brought in for the JVs. In this instance, the prompts aim to assist interviewees to think about the contents of related assets and advantages. The second type of prompt consists of questions such as “can you give me a specific example?” and appear when interviewees indicate that their companies engage in mutual adaption, development or joint innovation of products, processes and services with local Chinese partners. The third type of prompt include some possible ideas derived from literature about the upgrading of O-specific advantages, resources and capabilities that might help interviewees with their responses.

In addition, the interview guide has both English and Chinese versions, because confirmed interviewees include both English- and Chinese-speaking professionals and so interviews are conducted in both English and Chinese. The design of the interview guide follows a double back-translation process (Brislin, 1980). That is to say, interview questions are developed in English first and then translated into Chinese. This Chinese version of the interview guide is again translated into English language first and then translated back to Chinese language. The principle of this procedure is so-called “equivalence of language translation” which aims for the accuracy of translation (Brislin, 1980).

4.4.1.4 Piloting the interview guide

Three pilot interviews were conducted to a) test if interview questions could be fully understood by interviewees, and b) create an opportunity for the researcher to practise using everyday language to clarify specific academic terms when interviewees might require further explanations. The pilot interview process showed that interviewees might confuse the terms “monopoly” and “big brand effect”, as well as “perfect competition” and “fair competition”. Additionally, the researcher was required to define the terms “strategic alliance” and “industry spillovers”, as well as introduce how

economic restructuring happens on a country's IDP trajectory. In this way, the feedback from the pilot interviews informed the researcher of the importance of familiarising interviewees with the meaning of key academic terms regarding the research topic, and explaining them in colloquial language. When implementing interviews, the researcher added extra explanations regarding these key terms to make sure that interviewees fully understood the intent of interview questions.

4.4.1.5 Ethical considerations

In order to address possible ethical concerns associated with interview activities, the following measures were taken to ensure that this study complied with ethical standards. Firstly, this study was designed and conducted in compliance with the University of Waikato Code of Ethics guidelines. Secondly, before data collection, ethical approval was granted by the Waikato Management School Ethics Committee (see Appendix 4.4 Approved ethical application).

Thirdly, research information was disclosed fully to participants to minimise any possibility of deception. There were four steps that were taken to ensure that participants were fully informed about the research goals. The first step was that the researcher talked with potential participants and introduced the research including its purpose and explained how the interviews would be conducted. After prospective participants agreed to participate in interviews, they were emailed with a copy of the Participant Information Sheet (see Appendix 4.5) which fully disclosed the purpose of the research to help them decide whether or not to participate in this project. Once the schedule of the interviews was settled, the participants received a copy of a brief interview guide by email or WeChat. Prior to the commencement of the interviews, participants were given a Consent Form to sign and confirm their rights and duties in relation to this project.

Fourthly, public interview venues were preferred to assist in establishing a transparent process. Most face-to-face interviews were held at interviewees' offices (except two at star hotel lobbies, and one at an interviewee's home with his family present). Fifthly, the research did not seek any private data or confidential information about participating organisations or interviewees. Sixthly, numbers were used in transcription and as such, no interviewee privacy or organisation identity will be disclosed in any research publications. These numbers include "JV-Interviewee 1 (2, 3...)", "WFO-Interviewee 1 (2, 3...)", "L-Interviewee 1 (2, 3...)", "S-Interviewee 1 (2, 3...)", "D-Interviewee 1 (2, 3...)", "E-Interviewee 1 (2, 3...)", "FE-Interviewee 1 (2, 3...)", "JV1 (2, 3...)", "WFO1 (2, 3...)", "LCompany 1 (2, 3...)", "Supplier1 (2, 3...)", "Distributor 1 (2, 3...)" and "Expert 1 (2, 3...)". No one is allowed to access the collected data except for the researcher and her supervisors. To avoid any random access, all transcripts and digital recordings will be stored confidentially with password protection for five years following the completion of the thesis, then will be wiped and destroyed.

Seventhly, to minimise risk to participants, the following measures were taken. All participants were top-level managers/officials of their organisations; because they could choose to participate in the interview or not and how to answer interview questions, there was minimal risk for them. Also, participants could opt out at any stage of the research up until one week after the interviews, and their anonymity is preserved. Again, the signed Participant Consent Forms (see Appendix 4.6) showed that the participants knew how the interview would be conducted and how their information would be used. Thus, there are no conflicts of interest in this research for participants.

Lastly, with respect to social and cultural sensitivity, research questions were not considered to be sensitive in nature, and participants were able to withdraw statements if they wished to do so after the interviews. Most interviews were conducted in China using Chinese. The researcher as a Chinese native speaker, anticipated no culturally sensitive issues, and was available to answer further questions if needed. For several

interviews with non-Chinese winemaking experts that were conducted in English, the researcher suggested experts' Chinese assistants accompany the interviewees.

4.4.1.6 Transcribing interviews

All interview recordings were completely transcribed in word documents; 45 in Chinese and three in English. The 45 interview transcripts were then translated into English. The whole process was implemented by the researcher in person rather than relying on another translator. By doing this, while interpreting transcripts the researcher as the translator can make ongoing judgements on participants' exact meaning when responding to the researcher's questions (Barnes, 1996). As the researcher is a native Chinese speaker, there was no difficulty with cultural nuances in understanding interviewees' responses. In addition, while transcribing interviews, memos were written as ideas arose. These memos were seen as potentially useful for developing theory (Glaser, 1978).

4.4.2 Secondary data

Documentation review regarding the presentation of the study context and discussions on the leverage of foreign OF-specific advantages, resources and capabilities via equity- (i.e., JVs) and non-equity-based (i.e., other collaborative partnerships) linkages in the Chinese wine industry, contributed to the case study. The review of documentation assisted the researcher to build connections between specific evidence and final conclusions. This work was undertaken, recognising that documentation is a source of knowledge (Yin, 1994). By reviewing documents, the developments or changes associated with the target firms and industry before and after Sino-foreign collaborations were identified. This helped illuminate the complicated nature of business alliances between IFDI and local firms, as well as their impacts. The researcher was also cognisant of the importance of verifying the usefulness and effectiveness of the information, and questioning the reliability of all viewpoints (Yin, 1994) by assessing

the relationship between authors and their report contents (Ghauri, 2004). Table 4.1 lists the main secondary data that was selected to be reviewed. Multiple secondary sources were employed to investigate comprehensively and help explain the chosen phenomenon and the impact of FDI on firms in the Chinese wine industry.

First, company files provided information of the company's FDI activities and related outcomes. They showed how the transfer of O-specific advantages, resources and capabilities between foreign investing firms and their Chinese JV partners, and between Sino-foreign wine JVs and other local firms in the Chinese wine industry, had occurred over time.

Second, industry and government files provided information about the investment environment (L) of the Chinese wine industry. These files provided insights into China's wine production (e.g., vineyard area, wine grape varieties, wine producing regions, industrial clusters, wine output and innovation capacity), and wine market (e.g., wine culture, wine market size, wine-producing enterprises, market competition, wine brand shares, and wine imports and exports).

Third, academic studies and other media reports contributed complementary and additional information for a comprehensive understanding of the case study. These resources included background data on IFDI in the Chinese wine industry before 1949 (the establishment of the People's Republic of China) until the present. These resources also included materials on winemaking firms, suppliers and distributors in the Chinese wine supply chain, as well as other features of the Chinese wine industry such as Sino-foreign collaboration, international vine and wine expositions in China, the international awards and media exposure of Chinese wine, as well as OFDI from the Chinese wine industry.

Table 4.1 Secondary data sources

Company files	annual report, interim reports, company memos/history, company websites, company publicity materials
Industry files	publications (e.g., policies, regulations, industry year books, and statistics) related to the Chinese wine industry from China Alcoholic Drinks Association and its website, as well as China Wines Information (wine industry official website)
Government files	publications (e.g., policies, regulations and statistics) related to the past and current status quo of the Chinese wine industry from China's Ministry of Commerce, China's National Bureau of Statistics, and local governments
Academic studies	published journals/books/case studies on target research firms from Waikato University library database and other online academic databases
Media information	newspaper articles, business reports, professional magazines

4.5 Data analysis

4.5.1 Case study analysis techniques and procedures

Data collection and data analysis should go hand in hand, because this can avoid the potentially negative effects of data analysis that may occur after a lengthy period of data collection (Miles & Huberman, 1994), and also assist in the development of theory (Ghauri, 2004). Data analysis is a process which begins as soon as data collection begins, where the researcher iteratively compares, converges and diverges information. Data convergence aims to create themes while data divergence aims to discover connections between the themes, and between newly-found and already-known knowledge (Guba, 1978). There is a combination of techniques for analysing interview notes, interview transcripts and archival materials in the case study, including coding, clustering and matrices (see Table 4.2).

Table 4.2 Case study analysis techniques

Techniques	Explanation
...	...
Coding	Sorting data according to concepts and themes
Clustering	Categorising cases according to common characteristics
Matrices	Explaining the interrelationship between identified factors

Source: Ghauri, 2004.

4.5.1.1 Coding

The first step used in this study was coding for classifying data. This involved a process of data storage, synthesis and theme identification. This step was helpful for interpreting information, identifying tendencies, linking data to research questions, and integrating data into explanatory frameworks (Carney, 1990; Wiersma, 1995; Ghauri, 2004; Stake, 2010). It also assisted in detecting target categories for data analysis (Ghauri, 2004). By examining data, and naming and categorising phenomena (Strauss & Corbin, 1990), this step built a foundation for theory development.

Interview notes, interview transcripts and archival materials were reviewed line by line (Miles & Huberman, 1994; Strauss & Corbin, 1990). Ideas and concepts were identified from sentences and paragraphs. Then these ideas and concepts, as thought units, were labelled according to their properties. Next, these thought units under the same interview question were compared over time across interviewees and sources (Glaser, 1978; Glaser & Strauss, 2017). Finally, they were categorised thematically as dimensions of the interview question by similarities or differences. Each dimension was named as a code that represents its property or characteristic. Comparative analysis is an iterative process. Newly-identified thought units were constantly compared and

contrasted with existing codes and then were either grouped into the latter or given a new code.

This study employed Nvivo software as a platform to assist the coding process. Appendix 4.7 illustrates the coding platform. However, the researcher found that many respondents seemed to mention relevant information throughout an interview, and it was hard for Nvivo to detect supplementary data systematically across interview questions. Thus, in order to thoroughly code, sort and analyse related information, the researcher scanned all the interview transcripts manually again.

Take RQ2 as an example, for the purpose of data tracing, at this step, all codes reflected informants' meaning and language as much as possible, namely "informant-centric codes" (Patvardhan, Gioia & Hamilton, 2015, p. 411), and were referred as "first-order codes" (Corley & Gioia, 2004, p. 183; Patvardhan et al., 2015, p. 411) in Figure 5.2-1 and Figure 5.2-2 (see Chapter 5). There were 62 first-order codes that were identified during this step. For example, as can be seen in Figure 5.2-1, there is a group of first-order codes that have the same theme around the application of foreign assets by Chinese wine firms in winemaking. This grouping includes seven entries such as:

- a) The establishment of JVs was for getting complementary advantages from foreign investors, such as techniques, international view and wine industry practical experience.
- b) In small and medium-size Sino-foreign wine JVs, foreign investors, from a holistic perspective, oversee techniques (wine grape variety and equipment choosing, vineyard management, techniques and process) and product quality.
- c) To manage foreign and Chinese cultural difference in winemaking, Chinese staff start to pay more attention to the details of every aspect during work by following foreign experts' instructions.
- d) Sino-foreign wine JVs use corks mainly for bottling wine, but some of them start to try screw tops for Rosé and white wine based on Chinese market demand and foreign winemakers' perceptions.
- e) Sino-foreign wine JVs keep using corks for red wine by internalising foreign winemakers' perceptions.
- f) JVs' wine labels comply with both

China's and foreign wine industry standards. g) The usage of preservative and additive complies with international standards. Foreign winemakers bring in well-developed knowledge and experience about the usage of sulphur dioxide and oenological excipients to China.

4.5.1.2 Clustering

The second step was clustering data. This is a process of data categorisation. It requires researchers to first search for commonalities and differences, and then group them by issues related to research questions (Gall et al., 1996; Ghauri, 2004). Clustering facilitates a comparative case study (Ghauri, 2004). In this step, the researcher continued to comparatively analyse data across codes in order to look for relationships between various dimensions.

By doing so, in the case of RQ2, the 62 first-order codes were first aggregated into 23 second-order themes; then the 23 second-order themes were assessed by semantic relationships and further condensed into three theoretical constructs as shown in the final data structure (see Figure 5.2-1 and Figure 5.2-2 in Chapter 5). For example, as can be seen in Figure 5.2-1, seven first-order codes that have the same theme of the application of foreign assets by Chinese wine firms in winemaking are grouped together with an aggregated label under the second-order theme column, namely, "Chinese wine firms apply foreign resources, techniques, knowledge and experience that they learned from foreign wine affiliates, in terms of wine production". Then the corresponding theoretical construct for this second-order theme is *Application*. This was a process of conceptualising the relationship between dimensions (Corley & Gioia, 2004; Patvardhan et al., 2015; Thorne, 2000). On the basis of summarised theoretical constructs, the model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country was built (Figure 6.1).

4.5.1.3 Matrices

The last step was building matrices. Through this step, the inter-relationships between different factors can be detected, which helps to compare data further (Ghauri, 2004). Based on these relationships, findings are integrated into explanatory tables, figures and a model, with concise descriptions.

For example, Table 5.1 and Table 5.2 in the findings chapter show O-specific advantages, resources and capabilities that are contributed to Sino-foreign wine JVs by local Chinese wine firms and foreign wine MNEs. Table 5.3 shows resources and capabilities transferred from Sino-foreign wine JVs and wholly foreign-owned wine affiliates to local Chinese suppliers, distributors and alliance partners via non-equity-based linkages. Appendix 5.1, Appendix 5.2 and Appendix 5.3 aggregate representative quotations from interviews demonstrating the contents of Table 5.1, Table 5.2 and Table 5.3. These tables and appendices provide supportive evidence for answers to RQ1. Figure 5.2-1 and Figure 5.2-2 show data structures for the leverage of O-specific advantages, resources and capabilities from foreign affiliates to local Chinese firms via equity- and non-equity-based linkages. Appendix 5.4-1 and Appendix 5.4-2 aggregate representative quotations from interviews demonstrating the contents of Figure 5.2-1 and Figure 5.2-2. These figures and appendices provide supporting evidence for answering RQ2.

Table 5.4 shows the augmentation of the O-specific advantages, resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates. Appendix 5.5 aggregates representative quotations from interviews demonstrating the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms via equity-based linkages with foreign affiliates. Appendix 5.6 aggregates representative quotations from interviews to provide further supporting

evidence for Table 5.4. These table and appendices are supportive of answers to RQ3. Table 5.5 which shows the impact of IFDI on the development of the Chinese wine industry, along with Appendix 5.7 that aggregates representative quotations from interviews, provide supporting evidence for answering RQ4.

Through building matrices, RQ1, RQ2 and RQ3 will be addressed by examining both equity- and non-equity-based linkages. It is important to distinguish between types of linkages. Resources and capabilities that are transferred via equity-based linkages between foreign affiliates and local firms are different from those via non-equity-based linkages between Sino-foreign JVs/wholly foreign-owned affiliates and local firms, in terms of uniqueness and competitiveness; for example, the transfer of foreign O-specific advantages is most likely to occur within equity JVs. Then, it is necessary to examine if there is a similarity between the leverage types which local firms adopt for the transfer of resources and capabilities via equity- and non-equity-based linkages.

Responses from different types of firms (e.g., Sino-foreign wine JVs, wholly foreign-owned wine affiliates, local Chinese suppliers, local Chinese distributors and local Chinese alliance partners) and other wine-related institutions (e.g., China's wine regional governments, wine associations, wine research institutes and universities) for RQ1, RQ3 and RQ4 will be compared and presented. There are two major benefits of distinguishing between types of firms and other wine-related institutions. First, by comparing and analysing responses from different types of firms and other wine-related institutions, it will be possible to find out similarities and differences in the opinions from related interviewees to ensure the comprehensiveness of evidence for the research. Second, responses from multiple sources help verify each other so as to ensure the validity of evidence for the research.

Finally, Figure 6.1 demonstrates the model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country. It illustrates an overall

process of emerging market firms upgrading over time through which IFDI contributes to the development of the Chinese wine industry. It also illustrates the richness of the “Leverage” process within the LLL framework.

4.5.2 Abductive reasoning

Abductive reasoning is used for theory-seeking and development based on empirical investigation (Peirce, 1958; Timmermans & Tavory, 2012), as well as developing an improved understanding of real-life observations (Alvesson & Sköldberg, 1994). It starts with surprising findings and then constructs explanations (Alvesson & Sköldberg, 1994; Dubois & Gadde, 2002; Kirkeby, 1990; Timmermans & Tavory, 2012), involving hypothesis creation (Fann, 2012; Peirce, 1934). Abduction is thus an inference process which starts from studying unexpected empirical phenomena (Timmermans & Tavory, 2012), then generates hypotheses and subsequently, develops explanatory theories (Haig, 2005). Abductive inference, for evaluating the propositions, requires minimally an existence of facts previously unknown, value for further research and a possibility of new theory development (Haig, 2005; Kovács & Spens, 2005; Timmermans & Tavory, 2012).

Abductive analysis is regarded as a qualitative approach for data analysis (Timmermans & Tavory, 2012). The logical sequence of an abductive approach is: first, abduction suggests “general rules” according to knowledge of related-theory and a specific industry (Andreewsky & Bourcier, 2000); or it can also begin with disposing of a theory (Kovács & Spens, 2005). Then, it creates hypotheses and tests them in a specific context. Last, abduction derives new frameworks or develops existing theories (Alvesson & Sköldberg, 1994; Andreewsky & Bourcier, 2000). Peirce (1934) initiated a form of abduction: the surprising fact C is observed; if A were true, C would be a matter absolutely; hence, there is a reason to suspect that A is true. The "C" and "A" could be

interpreted as a result and its cause (Timmermans & Tavory, 2012). The "A" could be variables and relationships (Dubois & Gadde, 2002).

Compared to deduction and induction which both intend to build relationships between known constructs (Kirkeby, 1990), abduction systematically creates new insights related to current phenomena from different perspectives (Andreewsky & Bourcier, 2000; Danermark, Ekstrom & Jakobsen, 2001; Dubois & Gadde, 2002; Kovács & Spens, 2005; Taylor, Fisher & Dufresne, 2002) by discovering new variables and relationships (Dubois & Gadde, 2002).

Abductive reasoning systematically combines matching theories with empirical evidence (Dubois & Gadde, 2002). During the process of abductive reasoning, theory-building happens simultaneously as data collection is conducted. Abductive reasoning through hypotheses based on the interaction between theoretical and empirical information, is employed very commonly in case studies (Alvesson & Sköldbberg, 1994; Dubois & Gadde, 2002; Timmermans & Tavory, 2012; Taylor et al., 2002). The study by Dubois and Gadde (2002) emphasises that case studies with an abductive approach develop theoretical frameworks as an outcome of combining unpredicted findings and new concepts that stem from reality research.

Coding and reflective writing make sure that researchers are familiarised with data (Timmermans & Tavory, 2012); this is heuristics when abductive analysis applies. During this process, the interplay between reality and theory narrows “possible theoretical leads” (Timmermans & Tavory, 2012, p. 180) recursively and iteratively. When novel insights derive from data in contrast to existing theories, they potentially serve to reframe concepts as an original theoretical contribution (Timmermans & Tavory, 2012).

This study starts from an impressive but unexpected phenomenon that China, as a nation where wine is not a traditional drink, consumed the fifth most wine and became the tenth largest wine producer in the world by 2018 (International Organisation of Vine and Wine, 2019a). This significant evolution only commenced in the 1980s. After the Opening-up Policy introduced IFDI into the Chinese wine industry, Sino-foreign wine JVs and local Chinese wine companies began the mass-production of wine. Since then, an increasing number of Chinese people have begun to be aware of wine as an alcoholic beverage (Jenster & Cheng, 2008). China's terroir and market potential as the L-specific advantages of the Chinese wine industry have been sought after by international and indigenous investors. China now has the fourth largest wine-producing company worldwide, Changyu which is a Sino-foreign JV (Changyu, 2014b). The country now holds international vine and wine expositions every year (Table 4.1). Chinese wines win a number of international awards every year and as a result, often feature in headlines in the international media (Table 4.2).

The unexpected and surprising growth of the Chinese wine industry is the rationale for the choice of abductive reasoning to study the impact of IFDI on firms in the Chinese wine industry and consequently, the Chinese wine industry as a whole. First, an application of a theoretical concept (i.e., the linkage-leverage-learning concept) is suggested in the target study context (i.e., home-country context) based on a thorough scanning of relevant theories and industry circumstances. Then, research questions (around the process of the transfer of O-specific advantages, resources and capabilities from foreign affiliates to domestic firms) with theoretical and realistic foundations were carefully put forward. Next, these propositions will be examined in the specific study setting, the Chinese wine industry, by investigating the transfer of foreign O-specific advantages, resources and capabilities that has led to the upgrading of local firms and the entire Chinese wine industry. Additionally, the transfer process via equity JVs and non-equity-based collaborative partnerships will be explored. Consequently, the richness of the leverage process of foreign O-specific advantages, resources and

capabilities by local firms in the Chinese wine industry will be reframed as a model to contribute to international business research, in terms of strategies for emerging market firms' upgrading in the home country through creating linkages with IFDI.

This study aims to explore the catalyst role of IFDI in the upgrading of the Chinese wine industry at the firm-level and industry-level, and more importantly, to explicate the process of this catalytic impact. Thus, the researcher will observe and aim to articulate the interaction between information gathered from the data and current theories during the process of coding, analysing and reflecting. At the end, the "unknown" will be expounded as a supplement to or development of the existing theories.

4.6 Conclusion

This study employs a qualitative approach aligned with the focus on an in-depth investigation of a phenomenon, which allows for narrative analysis and is not limited to statistics. A qualitative research approach is process-focused and context-specific; it enables participant interaction, thematic analysis of data and theory-building. The researcher is required to remain as objective as possible when conducting the study. For designing the qualitative study, a funnel approach is adopted, which means that the research direction and questions are refined as data collection and analysis progressed. To establish validity and reliability of the qualitative study, triangulation and checking with participants are adopted.

A single-case study with embedded multiple subunits of analysis is utilised for this qualitative study. The study explores the impact of IFDI on firms in the Chinese wine industry and consequently, the Chinese wine industry, by looking at the transfer of foreign O-specific advantages, resources and capabilities to local firms via equity JVs and non-equity-based collaborative partnerships with foreign affiliates in the Chinese

wine industry. Forty-eight semi-structured in-depth personal interviews were conducted to collect primary data from 50 senior professionals who were covering nearly all key segments of the Chinese wine supply chain and who were selected through a snowballing approach. Ethical considerations were fully complied with during the whole research process. Abductive reasoning contributed to addressing research questions as well as coding, clustering and matrices in the process of data analysis.

Chapter 5 Findings

5.1 Introduction

This chapter sets out the findings to provide a comprehensive picture of the impact of IFDI on firms in the Chinese wine industry and consequently, the Chinese wine industry as a whole through the lens of inter-firm linkages. More specifically, this chapter addresses the four research questions introduced in the literature review (Chapter 2).

The findings are presented in six sections. Section 5.2 provides an overview of the key relationships and connections in diagrammatic form. The diagram shows the relationships between foreign and local firms describing equity- (JVs) and non-equity-based (other collaborative partnerships) linkages within the linkage-leverage-learning concept (Mathews, 2006a; 2017).

Section 5.3 answers RQ1 and presents O-specific advantages, resources and capabilities that foreign MNEs bring and share through linkages with local firms in the Chinese wine industry at the entry of IFDI. By applying the notions of “O” (ownership) and “I” (internalisation and quasi-internalisation), it also presents the evidence of the OLI paradigm in the Chinese wine industry. This section presents foreign O-specific advantages, resources and capabilities via equity- and non-equity-based linkages separately and sets the scene for understanding the leverage processes of O-specific advantages, resources and capabilities.

Section 5.4 addresses RQ2 and elaborates on the leverage process of O-specific advantages, resources and capabilities within equity- and non-equity-based linkages, through displaying data structures supported by representative quotations. Section 5.5 presents the evidence of “Learning” within the LLL framework in the Chinese wine

industry. Mathews (2017) defines the “Learning” as repeated linkage and leverage activities through which emerging market firms build dynamic capabilities. By experiencing the learning activity, the O_H-specific advantages, resources and capabilities of local Chinese firms are augmented further.

Section 5.6 addresses RQ3 and demonstrates the impact of IFDI at the firm level, namely: a) the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms via equity-based linkages with foreign affiliates (mainly wine affiliates), and b) the augmentation of the resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages. Section 5.7 addresses RQ4 and demonstrates the impact of IFDI at the industry level. It presents a holistic view of the contributions that IFDI makes to the development of the Chinese wine industry by summarising and analysing interviewees’ opinions.

5.2 Linkage - Types and transfer of foreign O-specific advantages, resources and capabilities

This section maps out the relationships between key players in the Chinese wine industry via a series of linkages. It is designed to provide a framework for reading the findings of this study according to different types of inter-firm linkages and relationships.

In order to pursue the potential of the Chinese wine region and the Chinese wine market, foreign MNEs invest in the Chinese wine industry. Foreign MNEs bring in foreign O-specific advantages, resources and capabilities, and influence local firms in the Chinese wine industry directly and indirectly via a series of linkages. From local (Chinese) firm perspective, IFDI offers opportunities for local firms to upgrade their advantages through creating relationships with or linking with foreign affiliates, then

leveraging and learning from partners' O-specific advantages, resources and capabilities.

Figure 5.1 illustrates the relationships between foreign affiliates and local firms applying the notion of “linkage” from the “linkage-leverage-learning” concept in the home-country context, i.e., China. Several types of direct linkages suggested by the literature will be apparent. First, local Chinese JV investor firms co-establish Sino-foreign wine JVs with foreign affiliates through direct inter-firm linkages (Dunning, 2001). The relationship between domestic and foreign partners is an equity-based collaborative partnership (Yigang & David, 2000). Second, local Chinese suppliers and distributors/agents/customers as upstream and downstream firms in the local wine industrial supply chain, along with local Chinese alliance partner firms, form non-equity-based transactional and collaborative partnerships with foreign affiliates vertically and horizontally through direct inter-firm linkages (Scott-Kennel & Enderwick, 2005). Third, there are also indirect linkages between local Chinese wine firms as competitors and foreign affiliates in the Chinese wine industry. These indirect linkages have been added to Figure 5.1 for completeness, although they are not the focus of the thesis. Rather, the different types of direct linkages are used as a framework for examining direct inter-firm linkages in the Chinese wine industry in the remainder of this chapter.

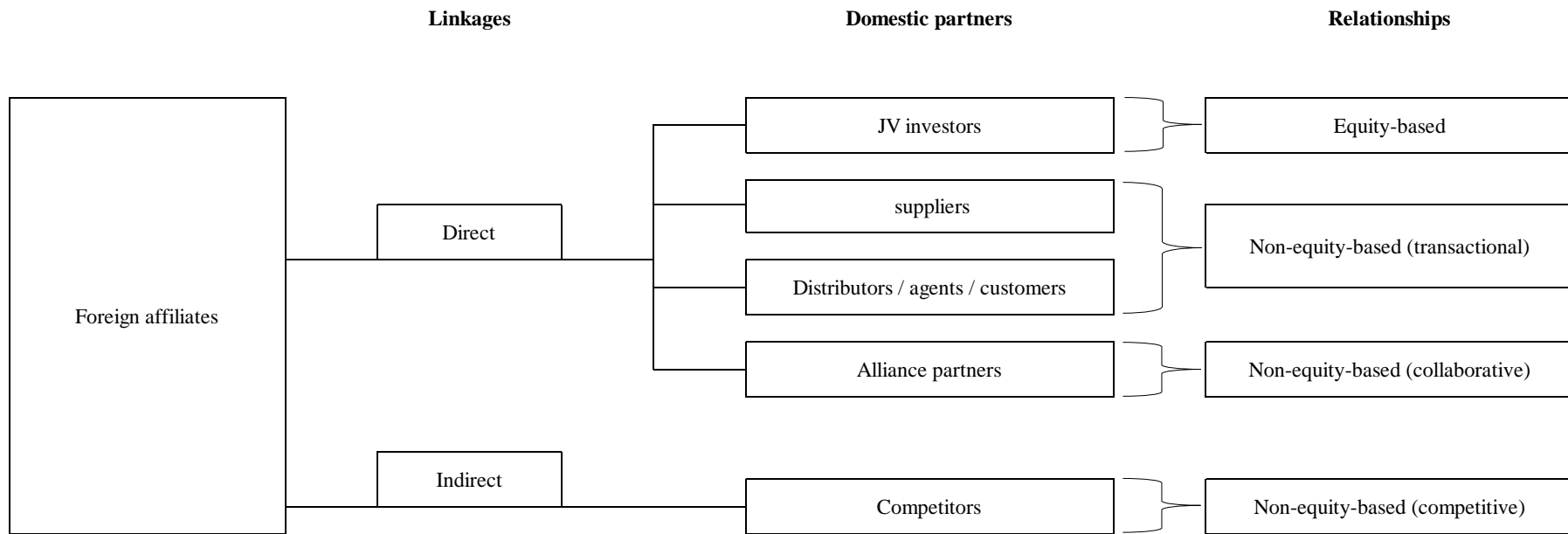


Figure 5.1 Relationships between foreign affiliates and local firms

5.3 Evidence of the OLI paradigm in the Chinese wine industry

This section presents the evidence of the OLI paradigm in the Chinese wine industry from three different perspectives that occur within direct inter-firm linkages: a) the existing O-specific advantages, resources and capabilities of local Chinese wine firms (O_H) invested in equity-based Sino-foreign wine JVs (section 5.3.1); b) foreign O-specific advantages (O_F), resources and capabilities transferred to equity-based Sino-foreign wine JVs (section 5.3.2); and c) foreign resources and capabilities transferred via non-equity-based inter-firm direct linkages, i.e., transactional backward (supplier) and forward (distributor/customer) linkages and collaborative (strategic alliance partner) linkages (section 5.3.3). The lenses for these perspectives are equity- and non-equity-based linkages as described in the previous section, between foreign and local firms in the Chinese wine industry. By presenting evidence from the first perspective, the section provides a reference point for the discussion on the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms. By presenting evidence from the second and third perspectives, the section aims to address RQ1 regarding O-specific advantages, resources and capabilities that foreign MNEs contribute through linkages with local firms in the Chinese wine industry at the entry of IFDI.

The section looks at all advantages, resources and capabilities contributed by local and foreign partner firms at the outset, with a view to seeing how these developed over time and contributed to the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms.

5.3.1 O_H -specific advantages, resources and capabilities of Chinese investor firms in equity-based Sino-foreign wine JVs

Table 5.1 summarises responses to the existing O-specific advantages (O_H), resources and capabilities that local Chinese wine firms contributed to Sino-foreign wine JVs.

These responses came from a total of 16 interviewees, including four from Sino-foreign wine JVs and 12 from other wine institutions (e.g., China's wine regional governments, wine associations, wine research institutes and universities). As evidence, key representative quotations of the responses from interviewees are analysed in the following discussion, with more details in Appendix 5.1. The existing O-specific advantages (O_H), resources and capabilities of local Chinese wine firms include capital, physical assets and intangible assets.

As China's economy and wine industry have developed rapidly, some domestic wine firms possess competitive conditions in terms of physical assets. They themselves have abundant **capital** to purchase high-tech equipment and build high-standard brewing workshops, cellars and other winery buildings. An interviewee (E-Interviewee 3) said that previously, China lacked wine equipment and technology and so expected foreign investors to bring these for Sino-foreign wine JVs, but now Chinese investors can also afford high-tech equipment. Another interviewee (JV-Interviewee 1) said that his company had an industrial park with 22 "world-first" cutting-edge technologies.

Physical assets refer to vineyards, land, brewing workshops, equipment, cellars and other winery buildings. When co-founding Sino-foreign wine JVs in China with foreign investors, the existing facilities such as vineyards, land and workshops of Chinese investor firms were brought into the joint entities as part of their investment. For instance, according to respondents (WFO-Interviewee 2, E-Interviewee 4 and E-Interviewee 5), Ningxia Farms and Land Reclamation (Group) Co., Ltd. and Moët Hennessy co-established a limited company (with its Chinese name being 酩悦轩尼诗夏桐(宁夏)葡萄园有限公司) whose vineyards supplied wine grapes exclusively for Domaine Chandon (Ningxia) Moët Hennessy Co., Ltd., one of the Chinese branches fully owned by Moët Hennessy. Ningxia Farms and Land Reclamation (Group) Co., Ltd. as a shareholder invested in vineyards and land.

Table 5.1 Existing O-specific advantages, resources and capabilities of local Chinese wine firms

Responses of interviewees from Sino-foreign wine JVs	Other responses*
<i>Capital</i>	✓
<i>Physical assets:</i> a) vineyards; b) brewing shops; c) cellars; d) other chateau buildings; e) Previously, wine equipment with advanced technology was brought by foreign investors, but now Chinese investors also afford these.	<i>Physical assets:</i> a) ✓ b) ✓ c) ✓ d) ✓ e) ✓
<i>Intangible assets:</i> local knowledge regarding aspects such as: a) local horticulture techniques; b) policy environment; c) market and sales; d) public relationship management; e) local connections; f) company management; g) sales networks; h) wine importing/exporting; i) Some domestic wine firms have accumulated some wine-making technologies with previous Sino-foreign collaborations; j) - k) - l) -	<i>Intangible assets:</i> local knowledge regarding aspects such as: a) cultivation such as vine posture and vine-burying; b) local laws and regulations on chateau establishment and operation; c) Chinese marketing modes; d) convenience of communicating with local government; e) industry connections including business partners and individuals (e.g. grape farmers and professionals from other local wine firms); f) - g) - h) - i) - j) local wine grapes' varieties; k) local climate; l) local resources including natural resources, human resources and other resources.

“✓”: Interviewees from Sino-foreign wine JVs and other wine institutions gave the same answers.

“-”: Interviewees from Sino-foreign wine JVs or other wine institutions did not give these answers.

*Other responses refer to responses of interviewees from wine institutions including China's wine regional governments, wine associations, wine research institutes and universities.

Another example is Changyu. As an indigenous Chinese wine-producing enterprise with wine sales reaching several hundred million CNY in 2003, Changyu attracted IFDI from Illva Saronno Holding S.p.A (before May 2014, it was Illva Saronno Investments S.r.l.) and International Finance Corporation (IFC). These investments were made on the basis of Changyu's existing assets (including vineyards, land and workshops) and business scale, according to a respondent (JV-Interviewee 1). The third example is Dynasty, the earliest Sino-foreign wine JV in the Chinese wine industry. As one respondent (E-Interviewee 3) recalled when Dynasty was established, the Chinese investor mainly provided vineyards, land and workshops.

Naturally, vineyards are a prerequisite for any wine-producing firm. In particular, vineyards are normally the main investment for wine-producing companies. There are some unique features of Chinese vineyards that qualify them to be seen as an O-specific advantage that Chinese investor firms contribute to Sino-foreign wine JVs. This uniqueness stems from the different varieties and qualities of grapes that can be produced due to a range of local climates and soil conditions. Correspondingly, different vineyards can produce wines that reflect unique local conditions, and can thereby provide unique proprietary or O-specific advantages to specific Chinese wine-producing firms. As for other physical assets such as land, workshops and other facilities, they are general resources that can be readily exchanged and shared and therefore are not O-specific advantages.

In terms of **intangible assets**, there are a number of local advantages that provided O-specific advantages to Chinese investor firms. These include wine specialists, with their distinctive know-how, employed by domestic investor firms. A limited number of top wine experts offer the Chinese JV partner firms a competitive advantage over other local firms. One of the unique advantages that these wine experts bring is that they are familiar with the local climate which varies across different wine regions. This is highly specialised knowledge because even within the same wine region, every land block has

its specific micro-climate. Thus, viticulturists within domestic investor firms know more, compared to foreign wine experts, about local wine grape varieties which show wine region- and winery-specific characteristics. Further, the experience of China's viticulture relating to the specific requirements of vine posture and in particular, vine-burying, also contribute to the advantages of local firms. Burying vines is an operation that only happens in China. Most wine regions in inland China suffer continental extremes in winter and vines need to be buried in the soil to prevent harm from the cold in winter, and then unearthed in the next spring (Robinson, 2013). An additional resource shared in Sino-foreign wine JVs by Chinese JV partner firms are certain winemaking technologies acquired through previous Sino-foreign collaborations that have been adapted to local requirements.

The intangible assets that Chinese wine firms contribute to Sino-foreign JV partnerships include domestic investor firms' knowledge, experience, contacts and expertise regarding establishing and operating local wine businesses. This set of local resources and capabilities of domestic investors is essential for foreign investors to embed in the Chinese wine industry. For instance, domestic investor firms have knowledge of the local policy environment consisting of laws and regulations about winery establishment and operation, as well as the convenience of communicating with local government. According to a respondent from a Chinese wine association (E-Interviewee 3), when Sino-French Joint-Venture Dynasty Winery Ltd. was established, it is said that the Chinese JV partner was Tianjin State Farms Agribusiness Group Company who invested vineyards. The Chinese investor company was a state-owned enterprise, and so very well placed to communicate and conduct business with the local government and farmers.

In addition to their familiarity with local protocols and ease of communication, Chinese partner firms are normally in charge of the administrative management for the Sino-foreign wine JVs, and Chinese investor firms contribute local experience to

company management. Another significant capability that all Chinese partner firms contribute is their understanding of local culture and society, so they can take responsibility for public relations management. Furthermore, Chinese JV partners have local wine industry connections such as linkages with local grape farmers and fellow professionals from other local wine enterprises. Equally important, Chinese JV partners are familiar with local markets and sales such as Chinese marketing modes and sales networks, and have a better understanding of local procedures regarding wine importing and exporting than their foreign counterparts.

As can be seen from Table 5.1, respondents from Sino-foreign wine JVs and other wine institutions agreed on the types of existing O-specific advantages, resources and capabilities contributed by local Chinese wine firms, with corporate directors and top managers focussing more on company management while wine institute experts paying more attention to local climate and resources. The O-specific advantages, resources and capabilities of local Chinese wine firms can be upgraded through equity-based collaborations with foreign affiliates. Thus, this section provides a reference point for the discussion in section 5.6.1, by presenting the existing O_H-specific advantages, resources and capabilities of local Chinese wine firms at the time of the establishment of Sino-foreign wine JVs.

5.3.2 O_F-specific advantages, resources and capabilities of foreign wine MNEs in equity-based Sino-foreign wine JVs

Table 5.2 summarises the O-specific advantages, resources and capabilities (i.e., capital, physical assets and intangible assets) contributed by foreign wine MNEs to Sino-foreign wine JVs. There were 16 respondents (including four from Sino-foreign wine JVs and 12 from local government, wine associations, wine research institutes and universities). Representative quotations from interviews are included in Appendix 5.2 and some key examples are cited and analysed in the text below.

Table 5.2 O-specific advantages, resources and capabilities contributed to Sino-foreign wine JVs by foreign wine MNEs

Responses of interviewees from Sino-foreign wine JVs	Other responses*
<i>Capital</i>	✓
<i>Physical assets:</i> a) vineyards; b) equipment/facilities; c) chateaus.	<i>Physical assets:</i> a) ✓ b) ✓ c) ✓
<i>Intangible assets:</i> a) chateau (including vineyard) management; b) staff training; c) access to foreign markets (e.g., distribution channel); d) technology, experience and techniques of local winegrowing, winemaking and pest control; e) international media; f) corporate governance knowledge and experience; g) internationality; h) international experience on marketing and sales and branding; i) product differentiation; j) approaches of Sino-foreign technical exchange;	<i>Intangible assets:</i> a) ✓ b) ✓ c) ✓ d) ✓ e) ✓ f) famous wine brands with high reputation worldwide; g) Western concept of chateau business, including concepts of how to make quality wine, how to build brands, how to market and sell wine, and how to operate chateau tourism.

“✓”: Interviewees from Sino-foreign wine JVs and other wine institutions gave the same answers.

*Other responses refer to responses of interviewees from wine institutions including China’s wine regional governments, wine associations, wine research institutes and universities.

Physical assets consist of vineyards, equipment/facilities and winery buildings. Foreign wine MNEs have invested these resources in the Chinese wine industry over time. For example, according to one respondent (E-Interviewee 3), when Dynasty was established in 1980, the Chinese wine industry lacked equipment and technology. The respondent (E-Interviewee 3) said that Rémy Martin planned to invest about CNY1 million into Dynasty in the form of equipment (including press machines, fermentation tanks and bottling machines). Dynasty was the first Sino-foreign wine JV in China. Its establishment marked the emergence of the contemporary Chinese wine industry in collaboration with Rémy Martin (France). The winemaking facilities that it invested into the JV provided a competitive advantage. Another example is that Les Domaines Barons de Rothschild (Lafite) and Citic East China (Group) Corp., Ltd. who, in 2009, co-established DBR-Citic Wine Estate (Shandong) in Penglai, China. Les Domaines Barons de Rothschild (Lafite) invested in vineyards, winery infrastructure including vat rooms, cellars, equipment (e.g., barrels and stainless-steel tanks) and other buildings (Les Domaines Barons de Rothschild (Lafite), 2020). Les Domaines Barons de Rothschild (Lafite) was one of the top wine-producers worldwide. The physical assets that it provided to the JV were unique and gave the venture a competitive edge, and attracted many Chinese wine professionals to visit and learn.

In terms of **intangible assets**, respondents identified five types of assets as important, namely: managerial experience, staff training, access to overseas markets, technology and media. Detailed explanations are as follows.

One important asset cited by respondents is managerial experience including winery management and vineyard management. DBR-Citic Wine Estate (Shandong) provides an example. In this case, Les Domaines Barons de Rothschild (Lafite) brought in plans and expertise concerning nearly all aspects of building and operating a winery such as research and analysis of soil and subsoil, vineyard management including vine planting, plant protection and grape harvest, technical choices in terms of varieties and root

stocks, as well as the selection of equipment. Furthermore, Les Domaines Barons de Rothschild (Lafite) recreated a Bordeaux style operation on Chinese soil by adopting a selective, quality-oriented approach reflected in the choice of grape variety and a reduction in yields. The foreign investor hoped to spread the quest for excellence throughout the Chinese wine industry (Les Domaines Barons de Rothschild (Lafite), 2020). Through the JV, that is, DBR-Citic Wine Estate (Shandong), selected O-specific advantages of the foreign investor, Les Domaines Barons de Rothschild (Lafite), were transferred to the Chinese wine industry.

Another important area noted by respondents is staff training. One participant (E-Interviewee 3) provided the example of Dynasty. He said that the boss of Rémy Martin at the time brought his son to Dynasty to make wine. Meanwhile, they trained a group of locals “on the job”. The respondent also said that after returning to France, the son became the head of Rémy Martin and this facilitated ongoing training by the firm’s personnel. The new boss continued to send French winemakers to Dynasty to make wine and train local staff. Those well-trained winemakers transferred the skills and experience learned from the French professionals to other local employees. Thus, there were many local winemakers in Dynasty who gained French winemaking expertise. Also, many have become top experts in the Chinese wine industry. This example showed that through staff training, foreign investors transferred their O-specific advantages, embodied in expertise, to local employees within equity-based Sino-foreign wine JVs.

Interviewees also noted the value of access to overseas markets (i.e., distribution channels). For example, one interviewee (JV-Interviewee 3) mentioned that the French investors in his company provided their Parisian sales and marketing channels for the JV’s wine exports. The interviewee also said that his French investors, as experienced wine distributors, provided suggestions about wine products that the JV should produce, based on market trends. The French investors’ wine distribution channels and their

knowledge relates to judging market trends that are proprietary, unique and competitive, and as such, can be regarded as O-specific advantages.

A further area concerns the technology, techniques and experience of winegrowing and winemaking. For example, foreign investors brought rigorous technological standards, operation specifications (E-Interviewee 1), vineyard pest control techniques, as well as wine production experience (E-Interviewee 5). An interviewee (JV-Interviewee 3) explained that his French investors had access to well-developed technology, which was helpful when the JV planned to purchase equipment. The interviewee continued by saying that with the advantage of multiple connections and contacts in the French wine industry, the JV engaged foreign experts to help the winery develop production processes which ensured wine quality. Furthermore, it was explained that through the French investors, the JV collaborated with a French winemaking technology consultancy to find the most suitable grape varieties for the vineyard after a few years' of observation and experimentation.

The final area noted by interview participants was international media. For instance, when Sino-foreign wine JVs and wholly foreign-owned wine affiliates invited international media to visit and report on their wineries in China, very often, they assisted journalists to look around the whole wine region. As a result, local Chinese wineries and the local wine region attained exposure in international media (E-Interviewee 4).

As can be seen from these examples, foreign affiliates internalised their overseas parent companies' O-specific advantages, resources and capabilities and applied them to the development of their associated Sino-foreign wine JVs.

Responses regarding resources and capabilities differed by the type of respondents. Directors and top managers of Sino-foreign wine JVs emphasised another five

intangible assets. These were a) the knowledge and experience of corporate governance, b) internationality, c) the international experience of marketing, sales and branding, d) product differentiation, and e) Sino-foreign technical exchange. One participant (JV-Interviewee 1) took firm's common governance as an example to explain so-called "learning opportunity". This respondent explained in detail that Chinese directors acquired expertise in international business, global investment and strategic management, through co-governing the JV with foreign directors. A number of examples of these learning opportunities were provided and are summarised here. Under the board system, the board of directors took responsibility for making decisions for major JV issues. Directors exerted their voting weight at the board of directors' meetings in order to represent the interest of shareholders, which facilitated the establishment of an effective governance structure. Sino-foreign investment introduced the company to a new corporate governance structure, which governed the company efficiently at all levels. The structure allowed management to operate the business autonomously within a corporate framework.

By comparison, respondents from China's wine regional governments, wine associations, wine research institutes and universities, taking the perspective of a third party, observed two more intangible assets that foreign affiliates contributed to Sino-foreign wine JVs. One of these was the Western concept of the winery business, including concepts of how to make quality wine, how to build brands, how to market and sell wine, and how to operate winery tourism. The other intangible asset they noted was the connection with famous wine brands with an esteemed reputation worldwide.

Further detail helps to illustrate how these assets are transferred. Initially, foreign investors bring in the Western concepts of winery operation. For example, foreign wine investors understand that the winery business needs long-term investment, and that high quality-vineyards are important, so they spend more money and pay more attention to winegrowing and vineyard management. This is a significantly different understanding

to that of many Chinese investors who tend to achieve a quick profit in the second or third year after establishment. To do this, they may be inclined to reduce the costs of their vineyards, and to spend more money on constructing spectacular winery buildings to attract customers. Another means of asset transfer is through famous international wine companies establishing branches in China. This is helpful for China to establish a reputation for the local wine region and attract more investment.

When establishing Sino-foreign wine JVs with local Chinese wine firms, foreign affiliates bring O-specific advantages, resources and capabilities which help foreign affiliates overcome the liability of foreignness (Zaheer, 1995) while competing with other wine firms, and organise value-added activities in the Chinese wine industry. In order to further embed in the Chinese wine market and strengthen their power over the business, interviewees revealed another strategy that foreign affiliates employ. They possess a higher equity share by investing capital, techniques and experience, as well as engaging in governance and management of the Sino-foreign wine JVs as much as possible. These findings relate well to theoretical perspectives on O-specific advantages and O-specific advantage transfer to equity-based linkages (JVs). As can be seen, this section addressed RQ1 by examining O-specific advantages, resources and capabilities that foreign MNEs contributed through equity-based direct linkages with local firms in the Chinese wine industry at the entry of IFDI. Through co-operating in the business, Chinese JV partners will upgrade their competences by internalising foreign O-specific advantages, resources and capabilities. This will be discussed in section 5.6.2.

5.3.3 The transfer of foreign resources and capabilities via non-equity-based backward, forward and collaborative linkages

Based on the literature, Chapter 2 surmised that foreign affiliates, through the quasi-internalisation of O-advantages, resources and capabilities, might contribute to the upgrading of local firms' own O-advantages, resources and capabilities via non-equity-based inter-firm direct linkages. These include transactional backward

(supplier) and forward (distributor) linkages, as well as collaborative (strategic alliance partner) linkages (Scott-Kennel, 2001; Scott-Kennel & Enderwick, 2004; 2005). This section presents the findings in relation to resource and capability transfer via these non-equity-based inter-firm linkages formed in the Chinese wine industry.

Table 5.3 summarises responses from 29 respondents. These include four interviewees from Sino-foreign wine JVs, three interviewees from wholly foreign-owned wine affiliates, 19 interviewees from local Chinese suppliers and three interviewees from local Chinese distributors. The table illustrates their views on resources and capabilities transferred from Sino-foreign wine JVs and wholly foreign-owned wine affiliates to local Chinese suppliers, distributors and alliance partners via non-equity-based direct linkages. Appendix 5.3 provides additional detailed evidence of these findings by presenting relevant representative quotations from the interviews.

Backward linkages

The findings reveal the evidence of the transfer of resources and capabilities through non-equity-based linkages between local suppliers (manufacturers and distributors) and their foreign partners, namely Sino-foreign wine JVs and wholly foreign-owned wine affiliates. First, Sino-foreign wine JVs and wholly foreign-owned wine affiliates, compared to most Chinese wine-producing firms, implement stricter standards, in particular for wine bottles, corks and labels. Second, when requesting goods, Sino-foreign wine JVs and wholly foreign-owned wine affiliates provided local Chinese suppliers with samples from overseas, as well as standards of production and products, including international standards, industry standards and corporate internal quality control standards. For example, parameters for a cork's appearance, size and quality would be clearly specified. This process enables local Chinese suppliers to emulate high standards of production and products.

Table 5.3 Resources and capabilities transferred from Sino-foreign wine JVs and wholly foreign-owned wine affiliates to local Chinese suppliers, distributors and alliance partners via non-equity-based linkages

Transfer of foreign resources and capabilities	Responses of Sino-foreign wine JVs	Responses of wholly foreign-owned wine affiliates	Responses of local Chinese suppliers
Local Chinese suppliers	international standards and samples to local suppliers of wine bottles, corks and wine labels.	a) assessment for product quality and production safety; b) quality control system, information, technology support and vineyard management experience to wine grape suppliers; c) samples, design plans and industrial standards to local suppliers (e.g. carton, auxiliary equipment manufacturer and wine label). d) technology, enological excipients and wine grape to OEM factories.	Sino-foreign wine JVs: a) stricter standards for products (e.g. wine bottles); b) internal quality control standards such as parameters for cork's appearance, size and quality grade for suppliers to source products. Wholly foreign-owned wine firms: a) overseas samples, knowledge and experience about products (e.g. wine label); b) quality management system; c) factory inspection covering aspects such as product quality, work environment and CSR; d) stricter standards for products (e.g. wine bottles); e) internal quality control standards such as parameters for cork's appearance, size and quality grade for suppliers to source products.
Local Chinese distributors	(JVs, except collaborations with strategic alliance partners, either conduct domestic sales via direct selling mode, or have their own sales branches to develop sub-distributors and localise management.)	a) marketing fees; b) product support (favourable price, freebies for promotion, gift boxes and wine samples for tastings); c) supportive staff for wine tasting activities and customer maintenance; d) training to sales staff about product knowledge and quantitative software management; e) store decoration; f) winery tourism.	Wholly foreign-owned wine firms: a) market promotion funding; b) assistance to promotion events and tastings (e.g. quality wines and supportive staff including foreign winemakers); c) product-related training; d) discussion about marketing projects and provides industry information.
Local Chinese alliance partners	a) sales channels, quality wines, prestigious reputation and exclusive distributorship to traditional wine distributors; b) capital, wine products, winery tourism, wine-related training programmes and high market prestige to e-commerce companies.	(sponsoring quality wines for local government events, yacht contests, golf contests and celebrities' weddings.)	-

Third, Sino-foreign wine JVs and wholly foreign-owned wine affiliates conduct factory inspections of suppliers. These inspections involve aspects such as product quality, production safety, work environment and corporate social responsibility (CSR). This is also a process of assisting local Chinese suppliers to improve their competencies. Local Chinese suppliers learn the importance of factory inspection and CSR, and start to implement these measures in their own operations. For example, interviewees from packaging manufacturers noted that foreign corporate customers conducted factory inspections before finalising a collaboration agreement, which helped them improve their competence. Factory inspections cover product quality, working environment and CSR (S-Interviewee 12-1). Internationally, well-known wine enterprises pay serious attention to CSR (S-Interviewee 12-1). This is important because any of these issues can destroy companies' reputations (S-Interviewee 12-2). One of the interviewees added that through the collaboration with his company's foreign partners, the company learned about factory inspections and started to conduct factory inspections of the company's own suppliers. In its own inspections, inspectors checked on the suppliers' ability to ensure product quality, timeliness of delivery, speediness of action and service quality (S-Interviewee 12-1).

Fourth, Sino-foreign wine JVs and wholly foreign-owned wine affiliates transfer quality control systems, technology support, design plans, vineyard management expertise, as well as knowledge and experience about using and producing goods, to local suppliers. For example, one interviewee from a packaging manufacturing company said that the wholly foreign-owned wine enterprises required strict and standardised function tests for gift box samples before mass production to ensure product quality. The function tests included free fall drop test and high-low temperature test in a simulated environment of freight and storage. This helped the company improve its quality management system (S-Interviewee 12-1). This interviewee added that the company accumulated experience for further manufacture through this process. In the past, if customers did not request function tests, this packaging manufacturing company did not

conduct tests for them. Now the packaging manufacturing company undertakes routine function testing for all products, even when customers do not require them. This testing increases cost, but it provides the basis for continuous learning and improvement. Also, it ensures that the quality of products is as high as possible (S-Interviewee 12-1). Local Chinese suppliers of cartons, auxiliary equipment and wine labels mentioned that wholly foreign-owned wine affiliates offered them design plans for products that the wholly foreign-owned wine affiliates wanted them to manufacture (S-Interviewee 11, S-Interviewee 12-1, WFO-Interviewee 1). A participant from a wholly foreign-owned wine firm said that his company provided technology, oenological excipients and wine grapes to its OEM factories. The transfer of foreign resources and capabilities, as the participant reported, helped suppliers improve their R&D ability, technology and product quality (WFO-Interviewee 1).

As can be seen from the examples above, through the collaboration with Sino-foreign wine JVs and wholly foreign-owned wine affiliates, foreign resources and capabilities are transferred to local Chinese suppliers via non-equity-based inter-firm linkages. Further, the local Chinese suppliers gradually improve their competences by internalising these new resources and capabilities, then applying them to their other customers.

Forward linkages

There are a number of resources and many kinds of assistance that wholly foreign-owned wine affiliates provided to local Chinese wine distributors. For example, wholly foreign-owned wine affiliates provided distributor firms with marketing fees, quality wine examples and supportive staff including foreign winemakers and winery managers to organise promotional events. As one interviewee (WFO-Interviewee 1) said, their company helped distributors design and decorate store displays for promotional events such as tastings, exhibitions, media conferences and consumer clubs. There were also other benefits such as favourable prices, freebies, gift boxes and

winery tourism. Then, wholly foreign-owned wine affiliates trained staff of distributor firms about product knowledge, brand culture, winery history, winery management and business concepts, as well as quantitative software management. Next, wholly foreign-owned wine affiliates also provided distributors with support relating to maintaining customers and sub-distributors, such as providing gifts as well as sending company representatives to visit sub-distributors and VIP customers. Finally, wholly foreign-owned wine affiliates provided industry information to distributors and discussed marketing projects with them.

The transfer of foreign resources and capabilities including capital, quality wine products and marketing methods help local Chinese wine distributors enhance their marketing and sales abilities. For example, one interviewee (WFO-Interviewee 1) said that in order to successfully brand and market wine products, local Chinese wine distributors learned about winery cultures and wines from wholly foreign-owned wine affiliates, then delivered them to consumers at wine promotion events. Furthermore, local Chinese wine distributors provided value-added services to end customers and paid special attention to customer maintenance by using resources from wholly foreign-owned wine affiliates. A positive outcome was that local Chinese wine distributors received market attention, customers' trust and consequently high sales volume, through collaborations with foreign wine-producing companies with a highly esteemed market reputation.

It is worth noticing that, according to the interviewees, Sino-foreign wine JVs conducted domestic sales either via direct selling mode or through their own sales branches. As the management style and sales mode of their sales branches were highly localised, the sales and marketing activities of Sino-foreign wine JVs were barely influenced by foreign investor firms. However, in the case of local Chinese wine distributors who as strategic alliance partners collaborated with Sino-foreign wine JVs,

there were advantageous resources and capabilities that were transferred from foreign affiliates to local alliance partners, as discussed in the following section.

Collaborative linkages

Sino-foreign wine JVs and wholly foreign-owned wine affiliates also formed strategic collaborative partnerships with local Chinese firms in the Chinese wine industry. For example, when wine distributors, as local alliance partners, collaborated with Sino-foreign wine JVs, sales channels and brand-specific quality wines as advantageous resources were transferred by Sino-foreign wine JVs to wine distributors. Strategic alliance agreements between these two parties allowed them to sell some specific wines for their alliance partners through each other's distribution networks. Further, in the case where Sino-foreign wine JVs were founded by well-known wine companies, the prestigious reputation of the JV partner firms, and the exclusive distributorship of wines from those reputable brands became two kinds of resources quasi-internalised by local wine distributors. The strategic alliance between Changyu and ASC is a telling example of this (Chinanews.com, 2019a; The drinks business, 2019).

Another case of resource transfer is strategic cooperation between Sino-foreign wine JVs and Chinese e-commerce platforms, for example, strategic alliances between Changyu and Alibaba, as well as Suning and JD. This type of cooperation is distinct from purely online sales because these e-commerce platforms provide Changyu with technical support for digitalised marketing, focusing on content marketing, big data analysis and the cultivation of wine consumers. In turn, Changyu provides its e-commerce strategic alliance partners with capital, wine products, winery tourism, wine-related training programmes and high market prestige. With these resources, the e-commerce companies can offer better service to their other customers, deepen R&D activities, and expand market reputations (Putaojiu.com, 2019a; 2019c; The drinks business, 2019; XINHUANET.com, 2018).

To sum up, as can be seen from Table 5.3, first, in the case of both backward and forward linkages, the responses of Sino-foreign wine JVs and wholly foreign-owned wine affiliates and their suppliers/distributors respectively, mutually verified and complemented each other. Sino-foreign wine JVs and wholly foreign-owned wine affiliates reported consistent opinions on resources and capabilities transferred via direct non-equity-based inter-firm linkages, just as local Chinese suppliers and distributors did. Through these transfers of resources and capabilities, local suppliers and distributors understood more precisely the standards required by Sino-foreign wine JVs and wholly foreign-owned wine affiliates when producing or sourcing goods for them. Additionally, Sino-foreign wine JVs and wholly foreign-owned affiliates helped to improve the competencies of local suppliers and distributors, so that the latter can meet the requirements of the former. As a result, based on interviewees' feedback, Sino-foreign wine JVs and wholly foreign-owned wine affiliates can, to a large extent, secure production capacity, product quality and delivery schedules without the uncertainties of purely transactional relationships with suppliers and distributors.

This section addressed RQ1 by examining O-specific advantages, resources and capabilities that foreign MNEs contributed through non-equity-based transactional and collaborative linkages with local firms in the Chinese wine industry at the entry of IFDI. Moreover, this section and section 5.3.2 presented evidence in the Chinese wine industry that confirms the transfer of O-specific advantages, resources and capabilities from foreign partners to local firms as equity JV partners and non-equity-based transactional and collaborative partners. The augmentation of O-specific advantages, resources and capabilities of suppliers, distributors and strategic alliance partners will be discussed in section 5.6.3. The following section will present evidence in the Chinese wine industry for the leverage process of O-specific advantages, resources and capabilities from foreign affiliates to local firms in a home-country context.

5.4 Leverage - Processes

This section aims to address RQ2 regarding the leverage process whereby foreign MNEs contribute to the augmentation of the O-specific advantage, resources and capabilities of local firms in the Chinese wine industry. There were 29 interviewees who provided relevant responses. These interviewees included four from Sino-foreign wine JVs, three from wholly foreign-owned wine firms, 19 from local Chinese suppliers and three from local Chinese wine distributors.

In this section, the process by which foreign O-specific advantages, resources and capabilities are transferred to local firms in the Chinese wine industry will be examined in relation to the “Leverage” concept in the LLL framework. Chapter 2 explained that Mathews defined “Leverage” as “gaining access to technologies and/or market position as resources...” (2017, p. 771) and “securing technologies or other resources from these linkages” (2017, p. 771). This definition was an important prompt and motivation for this thesis to explore and extend the notion of “Leverage” as a strategy for “gaining access to” and “securing” resources from foreign linkages. As a result, the study within the context of the Chinese wine industry, has contributed a richer understanding of the “Leverage” concept. This enriched picture of “Leverage” has been achieved by unlocking the process whereby local Chinese firms quasi-internalise foreign O-specific advantages, resources and capabilities via equity- and non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates. The leverage process is described in this section.

This section combines three data displays: a) the findings narrative, b) Figure 5.2-1 and Figure 5.2-2, and c) Appendix 5.4-1 and Appendix 5.4-2. Together, these data displays present a comprehensive picture of the evidence of the findings. Figure 5.2-1 and Figure 5.2-2 demonstrate the order and structure of data that identify first-order codes, second-order themes and theoretical constructs that distil the phases of the leverage

process through which resources are leveraged by local firms from foreign affiliates (mainly wine affiliates) in the Chinese wine industry via equity- and non-equity-based linkages. To be specific, the first-order codes are derived from respondents' answers to interview questions. They comprise all kinds of information that respondents proffer about resources and capabilities that local Chinese firms receive from foreign wine affiliates and are subsequently internalised. For the second-order themes, the researcher categorised the first-order codes into themes about how local Chinese firms deal with these foreign resources and capabilities. For the third order, based on antecedent studies on the processes as to how foreign resources and capabilities are transferred to emerging market firms (see section 2.7), some key theoretical constructs are conceptualised. Thus, in other words, respondent-centric first-order codes are aggregated into author-centric second-order themes which are then further refined into theoretical constructs. Each theoretical construct represents a phase of the leverage process. Appendix 5.4-1 and Appendix 5.4-2 show representative quotations and archival entries as additional first-order data to support second-order themes and theoretical constructs.

There are three theoretical constructs that emerge from the data, viz. *Application*, *Adaptation* and *Amelioration* [*Amelioration* includes “joint development” (Figure 5.2-1) and “innovation”/“joint innovation” (Figure 5.2-2)]. These constructs form the three phases of the leverage process (see discussion and Figure 6.1 in Chapter 6). The following part of this section will discuss how the three theoretical constructs are refined as the leverage process evolves.

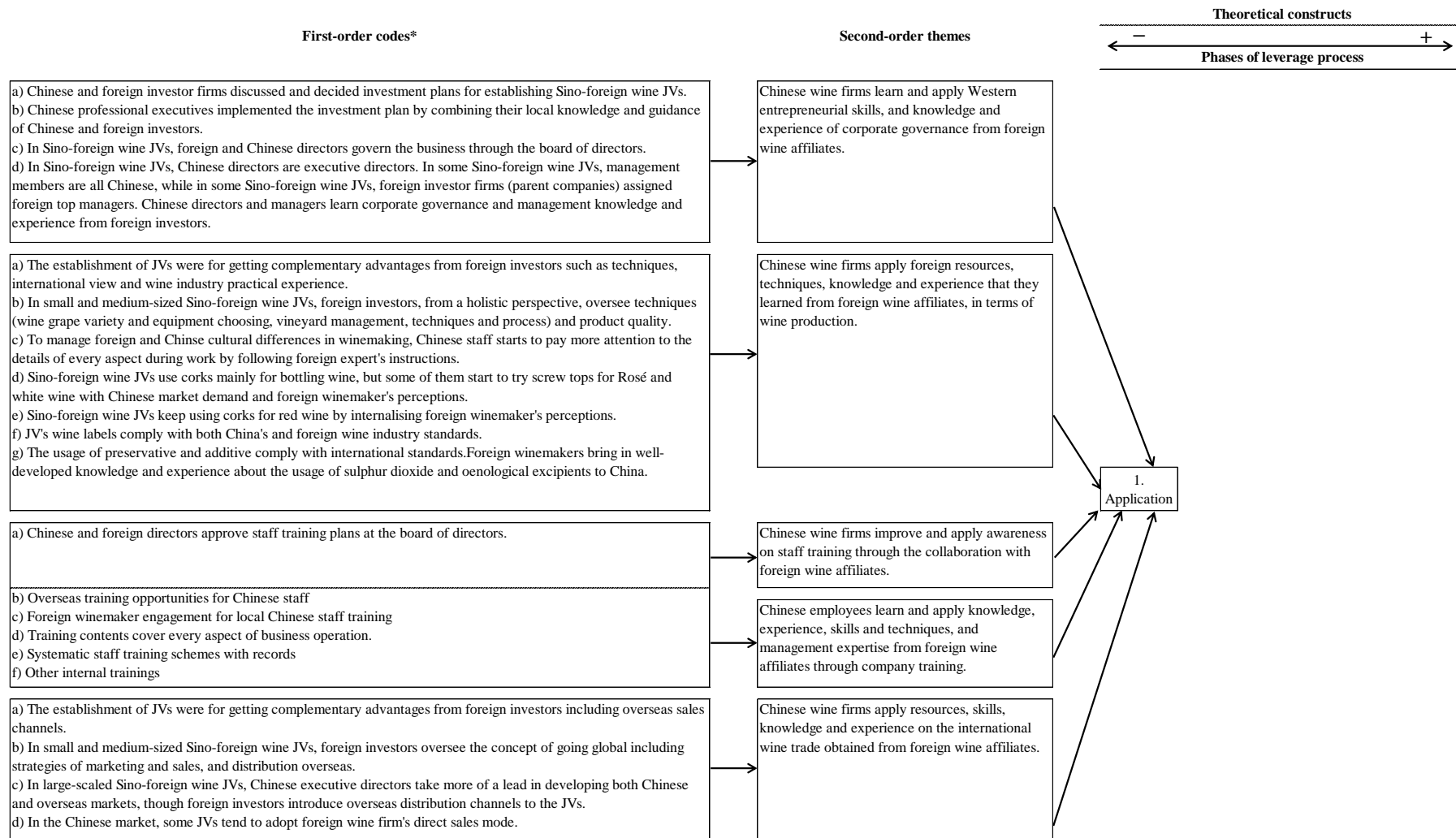
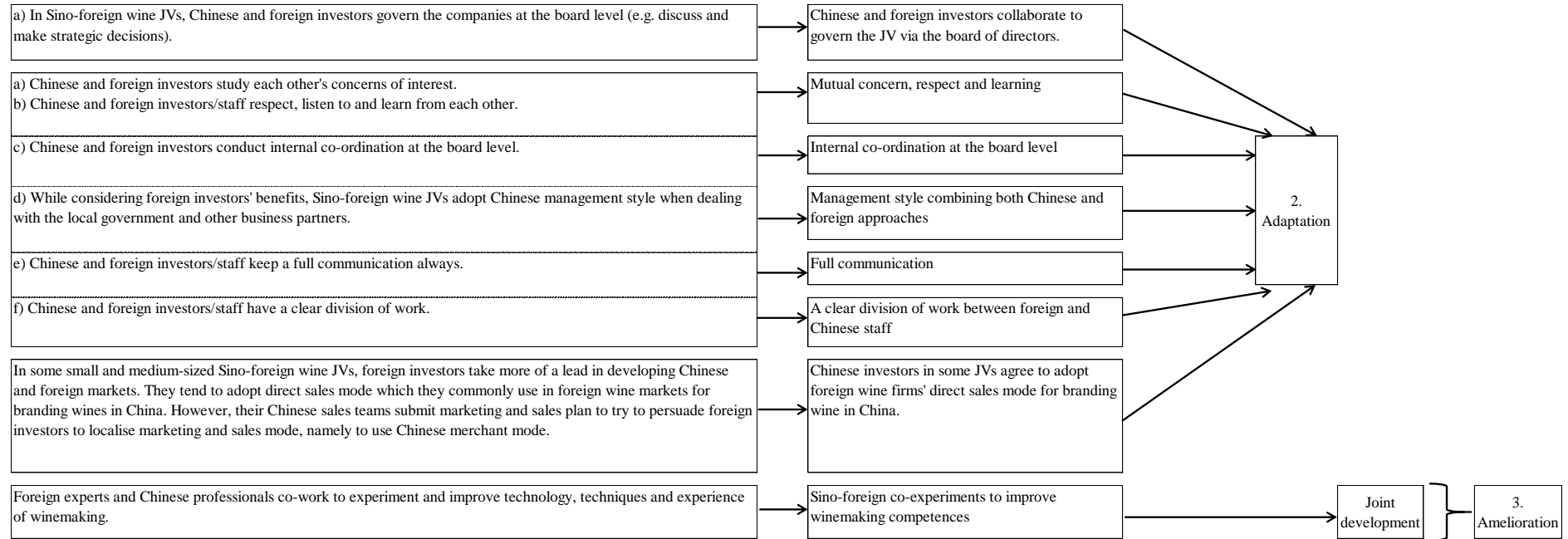


Figure 5.2-1 Data structure 1: Equity-based linkages - Leverage O-specific advantages, resources and capabilities from foreign affiliates (mainly wine affiliates) to local Chinese wine firms

(Figure 5.2-1 continued)



*First-order codes include data from interviews with informants.

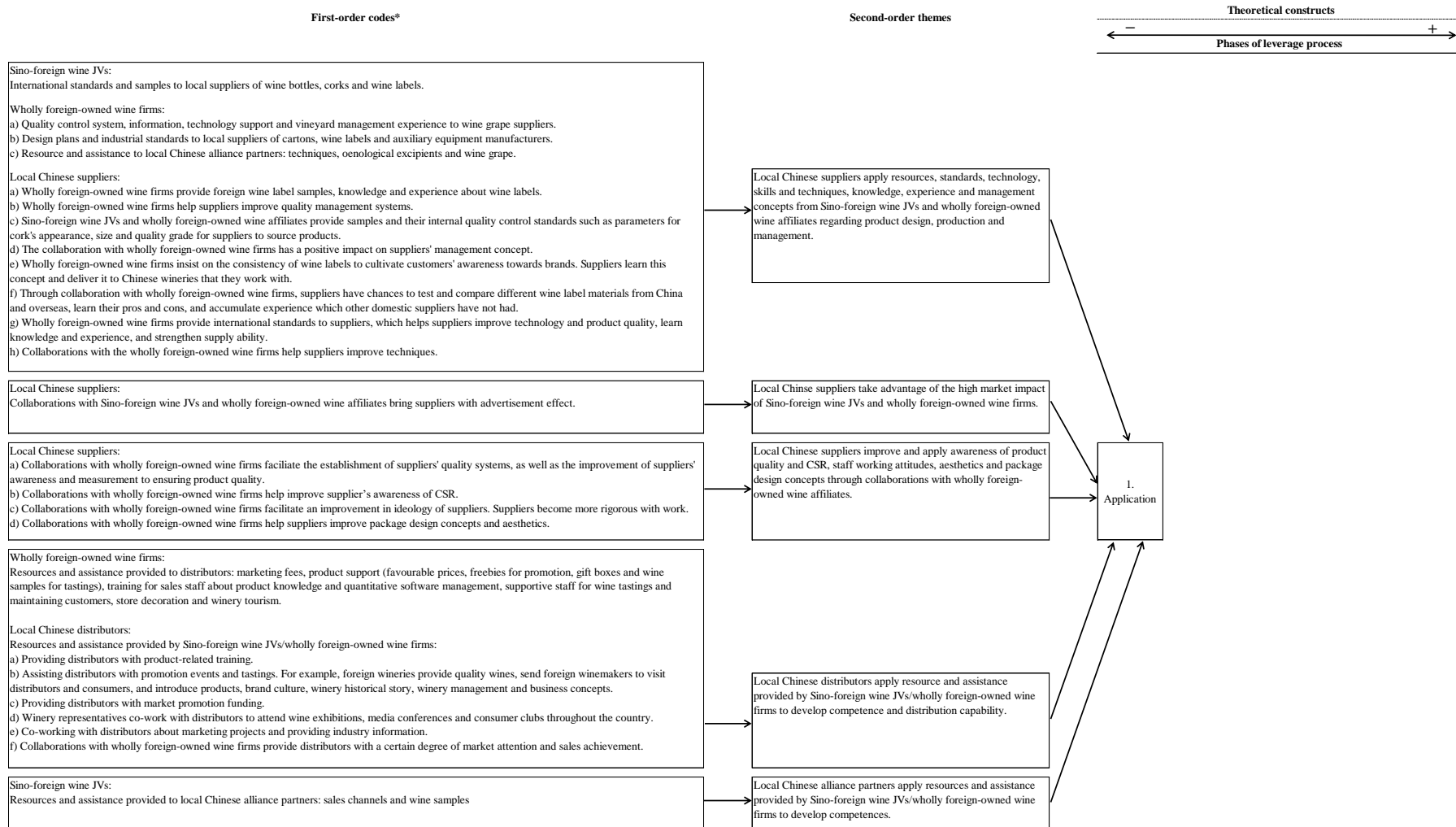
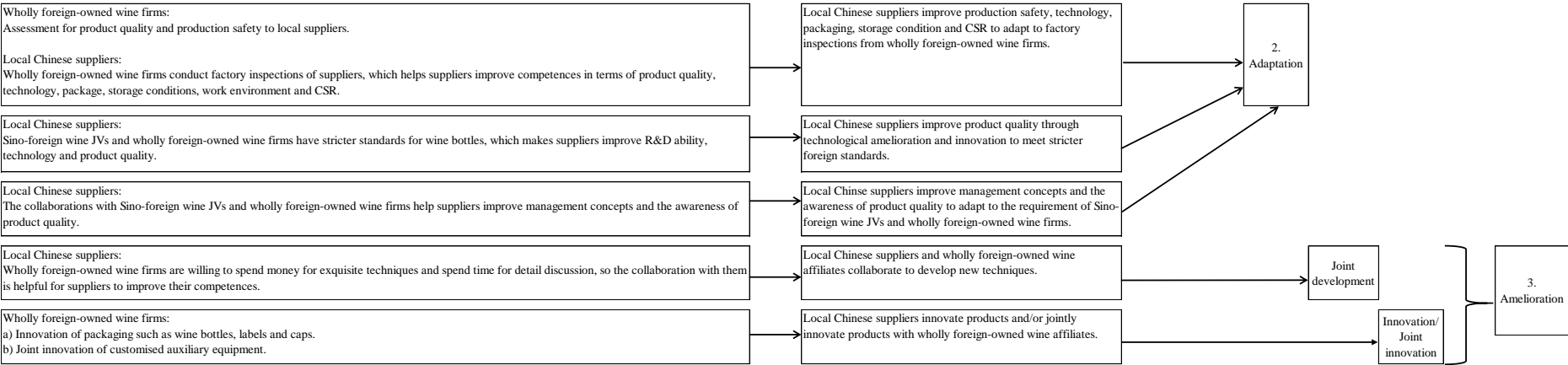


Figure 5.2-2 Data structure 2: Non-equity-based linkages - Leverage resources and capabilities from Sino-foreign wine JVs/ wholly foreign-owned wine affiliates to local Chinese suppliers, distributors and alliance partners

(Figure 5.2-2 continued)



*First-order codes include data from interviews with informants.

Application (Construct 1)

The first phase of the process whereby resources and capabilities are leveraged by local Chinese firms from foreign affiliates (mainly wine affiliates) is *Application*. In this phase, the process is one of unmodified adoption and application: local Chinese firms adopt foreign resources and apply them directly to practical operations without adjustment or change. In the case of equity-based linkage (Figure 5.2-1), within Sino-foreign wine JVs, the application of foreign O-specific advantages, resources and capabilities is reflected in four major areas of competence development including JV establishment, winemaking, staff training and wine trade.

In terms of JV establishment, Chinese wine firms adopt Western entrepreneurial skills, and knowledge and experience in business establishment, corporate governance and management from foreign affiliates (mainly wine affiliates) through involvement in Sino-foreign wine JVs, and then apply them to their OFDI cases. There are recognisable steps. Chinese and foreign investors initially discuss investment plans, according to their business needs. Next, investors hire Chinese professional executives with rich local knowledge to implement the investment plan under the guidance of Chinese and foreign investors. Then, in Sino-foreign wine JVs, foreign and Chinese directors govern the business through the board of directors. In some Sino-foreign wine JVs, Chinese directors are executive directors and management members are all Chinese while in other Sino-foreign wine JVs, foreign investor firms as parent companies assign foreign top executives to manage the JVs. Once the collaboration is underway, Chinese directors and managers learn and apply corporate governance and management knowledge and experience acquired from foreign investors. One interviewee explained how the learning was subsequently applied to another acquisition overseas:

(English translation)

When our company purchased wineries overseas, as a major shareholder, a Chinese director who represented our company applied the experience of the

domestic board of directors to govern the overseas wineries only via the board of directors, without sending any domestic staff member abroad. The fact proved that it is working well.

(JV-Interviewee 1)

This example demonstrates that through collaborating via the board of directors, foreign capabilities were transferred to Chinese directors, internalised and reapplied as an advantage in corporate operations.

The process of unmodified adoption and application by local Chinese firms continues in the operations of the newly-formed JVs. Direct instructions from their foreign JV partners play a key role in setting up the Chinese firms for leveraging foreign resources and capabilities. Foreign investors are likely to be in charge of winemaking. The transfer of techniques, an international perspective and wine industry practical experience occurs through direct oversight, guidance and instruction. Chinese wine firms explicitly follow foreign experts' suggestions and instructions during the winemaking process, and apply resources, techniques, knowledge and experience on winegrowing and winemaking that are obtained from foreign affiliates (mainly wine affiliates).

For example, in small and medium-sized Sino-foreign wine JVs, foreign investors, from a holistic perspective, oversee techniques (e.g., wine grape variety and equipment selection, vineyard management, skills and processes) and product quality. As one respondent said that in his winery, foreign investors took charge of technology, production and wine quality. Foreign investors recruited foreign winemakers to make wine, and foreign wine grape-growers to manage vineyards. Foreign investors also engaged an Australian winemaking technology consultant to visit the company regularly and coach local staff in winemaking, wine grape planting and equipment usage (JV-Interviewee 3). Another respondent explained how the application of foreign

resources and capabilities occurred in his company. French investors engaged foreign experts to conduct soil and weather analysis for the winery prior to vineyard construction. On the basis of an evaluation report, the French investors suggested a production-related technical plan including wine grape variety, cultivation processes and vine posture. Foreign experts also provided up-to-date information about winemaking technology to improve wine quality (JV-Interviewee 4).

Under expert guidance and instruction, Chinese teams began to apply the resources and capabilities related to winegrowing and winemaking from foreign investors. One of the respondents also commented on the direct application of the learning by Chinese teams:

(English translation)

Chinese and foreign investors worked together to discuss major issues in business direction such as wine grape varieties. Chinese investors owned bigger shares and so held the power to make final decisions. However, they decided to apply foreign investors' opinions with careful considerations, after all, the foreign investors were French wine distributors with rich experience in wine marketing and sales.

(JV-Interviewee 4)

These examples illustrate how Chinese teams in Sino-foreign wine JVs gained foreign knowledge, expertise and experience by applying professional plans and ideas from foreign winemakers, wine grape-growers, consultants and experts.

As part of the *Application* phase, Chinese employees begin to notice and adopt some approaches to winemaking operations that differ from local practices. Chinese employees start to pay more attention to the details of every aspect of their work by following foreign experts' instructions. Examples include practices related to corks, wine labels and the use of additives and preservatives. Sino-foreign wine JVs mainly use corks to bottle wine. However, some are starting to try screw tops for Rosé and white wine for two main reasons: foreign winemakers' perceptions and Chinese market

demand. With regard to labelling, Sino-foreign wine JVs' wine labels comply with both China's and foreign wine industry standards, with more information on the back label for the Chinese wine market. The use of preservatives and additives complies with international standards. Chinese winemakers follow well-developed international know-how about the usage of sulphur dioxide and oenological excipients that foreign winemakers bring into China.

Another area in which Chinese wine firms build their own capacities through explicit espousal of foreign approaches is staff training. Chinese wine firms improve their awareness of staff training through collaboration with foreign affiliates (mainly wine affiliates) in planning and organising staff training programmes covering every aspect of the wine business. Foreign and Chinese directors discuss and approve staff training plans at board meetings. Then, Chinese management carry out staff training based on the decisions of the board of directors.

This mix of learning from direct instruction and collaboration in the *Application* phase is evident from the comments of some respondents in relation to staff training. One respondent said that foreign directors paid great attention to staff training, so employee training was one of the topics at board meetings for discussion and approval. Chinese executive directors engaged in making broad decisions about training plans, and organising and implementing training programmes (JV-Interviewee 1). Another respondent mentioned that foreign directors suggested the board of directors establish a rule that the company should send Chinese staff to study overseas every two years. Correspondingly, local staff members were sent to wineries in Australia for training (JV-Interviewee 3). The third respondent said that his company introduced three kinds of staff training programmes, all of which involve some degree of explicit instruction from the foreign firms, but also interaction and collaboration with local personnel. The company invited foreign winemaking technology consultants to work with local staff while the latter learned from them. At company seminars, local employees and foreign

consultants discussed problems that occurred during production, and foreign consultants also introduced the latest R&D information in the international wine industry or lectured on specific areas of expertise. Chinese staff were also given opportunities to travel abroad; the company arranged for Chinese staff to attend exhibitions of wine production equipment in France where staff members learned how to use machines with new technologies and ideas. Employees also visited foreign wineries. At home, in a kind of apprenticeship model, senior staff members taught new employees while working, and the company also provided staff training regarding wine tasting and brewing workshop operational standards (JV-Interviewee 4).

The fourth area is international wine trade in which Chinese wine firms apply resources, knowledge, expertise and experience that they obtained from foreign affiliates (mainly wine affiliates). To facilitate this learning, foreign investors introduced Western marketing and sales modes, overseas sales channels and foreign wine media. Interviews showed that in some Sino-foreign wine JVs, Chinese investors who were responsible for domestic sales and brand promotion adopted and applied foreign wine firms' direct sales modes to the Chinese wine market. For instance, one interviewee said that based on foreign investors' opinions, the JV adopted a direct selling business mode with lower mark-ups which was similar to the wine selling mode in foreign countries (JV-Interviewee 3). Another respondent mentioned that the Italian investor in his company flew about 30 visitors, including his American distributors, media and journalists, to China to visit the company, and that they talked about possible collaboration (JV-Interviewee 1). In a further example from the interviews, the Chinese executive directors and Chinese management of a Sino-foreign wine JV adopted and applied the strategy, namely the concept of "going global" suggested by their foreign partners – targeting Europe first, particularly the UK. They formulated vineyard management systems and marketing plans regarding labels, distribution and strategies, to make sure they were producing competitive products, as well as marketing and selling their wines successfully in Europe (JV-Interviewee 2).

In the case of non-equity-based linkages (Figure 5.2-2) between Sino-foreign wine JVs/wholly foreign-owned wine affiliates and local Chinese suppliers, distributors and alliance partners, the application of foreign resources and capabilities can be explained from four main aspects. The first aspect is that local Chinese suppliers apply resources, standards, technology, skills and techniques, knowledge, experience and management concepts from Sino-foreign wine JVs and wholly foreign-owned wine affiliates regarding product design, production and management. There were three examples that informants provided as follows:

Example 1

(English translation)

The collaborations with wholly foreign-owned wine enterprises helped the company with its technical advancement. First, famous wholly foreign-owned wine enterprises were willing to pay relatively high prices for quality packages. Second, wholly foreign-owned wine enterprises were open to introduce their package proofing consultants to gift box suppliers for communication. In order to get orders, the company took advantage of the resources from wholly foreign-owned wine enterprises, and invested funding and senior designers in R&D and technical innovation.

(S-Interviewee 12-2)

Example 2

(English translation)

Wine grape suppliers strengthened their quality control systems according to our requirements. They applied information and technology suggestions provided by us regarding grape-growing, vineyard soil and vineyard management, paid special attention to grape harvest, and implemented tracking management, in order to ensure grape quality.

(WFO-Interviewee 2)

Example 3

(English translation)

The people-oriented management of wholly foreign-owned wine companies has had a positive impact on my management style. I have applied it to my firm to provide my employees with a friendly and motivational work environment and flexible “office” mode, as well as an increase in staff welfare and business traveling expenses. All these have made my employees feel a sense of being respected and a sense of pride.

(S-Interviewee 9)

The second aspect of the application of foreign resources and capabilities via non-equity-based inter-firm linkages is that local Chinese suppliers utilise the strong market impact of Sino-foreign wine JVs and wholly foreign-owned wine affiliates. In this respect, all suppliers interviewed expressed the view that collaborations with these enterprises facilitate positive advertising effects. For example, a supplier of oak barrels said that collaboration with Sino-foreign wineries helped promote his company's reputation in the industry. The supplier also said that very often new customers came to his company because of personal recommendations by existing customers

(S-Interviewee 5). Likewise, the owner of a wine label printing house said that collaboration with wholly foreign-owned wine enterprises helped his firm build and expand market reputation, which resulted in more winery customers (S-Interviewee 11). The wide market appeal of renowned brands is an advantageous resource in business competition. These examples suggest that in the *Application* phase, applying foreign resources and capabilities partly occurs through the exploitation of foreign brand reputations by Chinese suppliers.

The third aspect of the application of foreign resources and capabilities happens through Chinese suppliers' imitation of foreign companies' approaches to matters such as

quality control, CSR, staff work ethics, aesthetics and package design concepts. Chinese suppliers heighten their awareness of these aspects through collaboration with wholly foreign-owned wine affiliates and then apply these to their business operations. For example, with the impact of Sino-foreign collaborations, some suppliers established their quality systems, and some suppliers acquired more rigorous work habits. One interviewee, a packaging manufacturer commented on the improvement of their awareness of production quality control systems and staff working attitudes, as well as the application of improved abilities for gift box production.

(English translation)

Before if customers did not request function tests, we did not conduct tests for them. Now we arrange a routine test for all products with their functions even if customers do not request them. This increases our costs, but creates a chance for us to study, as well as ensure the quality as much as possible. We realise that if there was any quality problem found after shipment, we will still need to take the responsibility. ... Our employees have now become more rigorous. ...now we use our developed standards which are stricter than customers' requirements. This shows an ideological improvement.

(S-Interviewee 12-1)

Similarly, in terms of CSR, this interviewee (S-Interviewee 12-1) noted that they started to pay more attention to their OEMs' CSR, in particular environmental protection and product quality. The respondent confirmed that this was because their collaborations with internationally famous wine enterprises reminded them that any of these issues can destroy a company's reputation. Another interviewee mentioned her learning about packaging from foreign firms. When talking about the aesthetics of packaging, one respondent (S-Interviewee 12-2) said that the package samples provided by the wholly foreign-owned wine enterprise her firm worked with broadened the horizons of her and her colleagues, and helped their firm better prepare for their future customers.

The fourth aspect is that the learning for local Chinese distributors and alliance partners from foreign wine JVs and wholly foreign-owned wine affiliates was not only through the imitation of practices they observed, but also occurred through the provision of practical help and support from foreign wine associates. This support established the foundation for the application of new practices. Interviewees reported that local Chinese distributors, with support such as marketing fees, wine samples, gifts and favourable prices from Sino-foreign wine JVs and wholly foreign-owned wine affiliates, organised wine tastings according to the marketing directions of particular wines. Winemakers and winery managers were invited to these gatherings to introduce their wineries' entrepreneurial stories, winery histories, brand cultures, vintage years, wine grape varieties and the features of wines. In order to provide better customer service and customer maintenance, local Chinese distributors invited winery managers to visit customers and sent gifts to VIP customers on their birthdays or special anniversary days. Further, local Chinese distributors held media conferences and invited winery representatives to talk about their vineyard and winery management. Topics included grape-picking, green harvest, the usage of yeasts and oak barrels, aging time in barrels, aging time in bottles before sales and investors' business concepts. Local Chinese alliance partners promoted their own wine products by utilising the existing marketing platforms and sales channels of their collaborative Sino-foreign wine JVs and wholly foreign-owned wine affiliates. It can be seen that the supportive framework provided by Sino-foreign wine JVs and wholly foreign-owned wine affiliates offered significant assistance in the *Application* phase of the leverage process.

In sum, the *Application* phase of the leverage process refers to applying foreign resources and capabilities that are nurtured in the collaborations with Sino-foreign wine JVs and wholly foreign-owned wine affiliates. *Application* occurs through a combination of instruction, collaboration, imitation and the provision of practical support. Overall, *Application* is a straightforward approach for upgrading local Chinese firm's O-specific advantages and other competences.

Adaptation (Construct 2)

The second phase of the process of leveraging resources and capabilities by local Chinese firms through linkages with foreign-owned affiliates is *Adaptation*. When foreign resources cannot be applied in the Chinese situation exactly as they are in a foreign context, local Chinese firms need to make reasonable adjustments or changes to either the foreign resources or local Chinese firms themselves, in order to make good use of the new resources (Forsgren et al., 2005; Tey & Idris, 2012).

In the case of equity-based linkages (Figure 5.2-1) within Sino-foreign wine JVs, the *Adaptation* phase of the leverage process is mainly visible in approaches to corporate governance and management. The leverage process requires some adaptation to foreign approaches because of cultural differences and expectations. Insights from the findings suggest that such adaptation is built on principles of mutual concern, respect, and careful and attentive communication. The relationship dimension is seen to be important in facilitating the leveraging of resources through adaptation. As one interviewee (JV-Interviewee 2) commented that because foreign and Chinese directors and employees had different ways of thinking, the best way to solve differences is to respect, listen to and learn from each other.

The adjustment process between Chinese and foreign JV partners is ongoing at the board of directors where the two parties collaborate to govern Sino-foreign wine JVs and conduct internal co-ordination at the board level. According to interviewees, about 20 years ago, the Western corporate governance structure was still new to China's state-owned wine enterprises. In order to introduce the corporate governance structure to the Sino-foreign wine JVs and ensure that it worked properly, Chinese directors adopted learning strategies. The Chinese directors, including directors representing government assets and directors representing employee shareholders, learned from foreign directors about the roles of directors and how to represent shareholders' interests

on the board of directors. As respondents said, small shareholders also had voting rights (JV-Interviewee 3), and that all directors should take advantage of voting rights to represent the interest of shareholders, and facilitate the establishment of a good corporate governance structure for the JV (JV-Interviewee 1). These were examples of Chinese directors adjusting their management modes to adapt to a modern Western corporate governance structure.

Adaptation also occurred in the case where Chinese directors assist foreign directors in Sino-foreign wine JVs to adapt to local Chinese culture and social realities. As one interviewee (JV-Interviewee 1) said, the Chinese executive directors were responsible for handling government affairs. So, if foreign directors' views and approaches did not fit well with China's realities, the Chinese executive directors would communicate with their counterparts and coordinate any disagreement internally at the board meetings.

Another way to examine how the *Adaptation* phase in the leverage process works is to look at how Chinese and foreign approaches are combined in the management style of Sino-foreign wine JVs. There is a clear division of work between Chinese and foreign investors and employees in Sino-foreign wine JVs. Chinese executive directors and management take charge of production, internal administration, domestic sales and businesses in interaction with local governments and other local business partners, while fully considering foreign investors' interests. Wine sales modes in the Chinese market are said to be different to those in foreign countries, as in China, wine sales rely heavily on distributorship. However, Chinese investors in some Sino-foreign wine JVs have agreed to adopt a direct sales mode (which is commonly applied in foreign wine markets), for branding wines in China. One interviewee (JV-Interviewee 1) described how *Adaptation* works between Chinese and foreign investors by commenting that there was a cultural difference between Chinese and foreign investors, but it did not really negatively affect the board's decisions. By working together for more than ten years,

Chinese and foreign investors in the company understood each other's concerns and both parties adapted accordingly.

In the case of non-equity-based linkage (Figure 5.2-2) between local Chinese suppliers and Sino-foreign wine JVs/wholly foreign-owned wine affiliates, interviews illustrate the *Adaptation* phase of the leverage process in a number of ways. One instance is when local Chinese suppliers improve production safety, technology, packaging, storage conditions and CSR to adapt to factory inspections from wholly foreign-owned wine firms. One interviewee (S-Interviewee 12) from a wine packaging manufacturer provided an example where a wholly foreign-owned wine firm requested a factory inspection before deciding on a collaboration with his company. The inspection covers product quality, working environment and CSR. CSR includes overtime work, company welfare, employees' salaries, employee discrimination and forced labour. The manufacturer improved its competence to adapt to the customers' requirements and finally secured the collaboration. This example suggests that it is sometimes business pragmatism that motivates the decisions of Chinese firms to adapt. This example also suggests how adaptation can prompt a wider application of new competencies. In this instance, the manufacturer learned about the importance of factory inspection and started to conduct factory inspections for its own suppliers.

Similarly, local Chinese suppliers improve management concepts and the awareness of product quality to adapt to the requirements of Sino-foreign wine JVs and wholly foreign-owned wine firms. For example, in one instance, a Sino-foreign wine JV had highly effective bottling lines which required bottles with better anti-wear performance. In order to adapt to the high standards of this JV, a local Chinese bottle manufacturer improved its techniques and strengthened its inspection measures to prevent bottles from being worn and cracked on the bottling lines (S-Interviewee 13).

Additionally, local Chinese suppliers improve product quality through technological adjustments and changes to meet stricter foreign standards. One interviewee from the wine packaging manufacturer provided an example to explain how suppliers adapt to standards of wholly foreign-owned wine firms. He said that well-known wholly foreign-owned wine affiliates are willing to pay relatively high prices for quality packaging. To obtain their orders, his factory invested heavily in R&D to develop technology and solve technical difficulties (S-Interviewee 12).

This discussion demonstrates that the *Adaptation* phase involves a process whereby local Chinese firms, especially wine firms and suppliers, not only coordinate foreign resources and capabilities to adapt to local realities, but also by moderate adjustments and changes, upgrade their O-specific advantages, resources and capabilities to meet foreign standards. *Adaptation* also includes foreign wine firms adjusting their expectations and requirements to accommodate Chinese social and cultural realities. By doing this, they are better able to participate in Sino-foreign collaborations.

***Amelioration* (Construct 3)**

The third phase of the process whereby resources and capabilities are leveraged by local Chinese firms from foreign affiliates (mainly wine affiliates) involves *Amelioration*. When moderate adjustments or changes to foreign resources or the Chinese situation still does not enable application, local Chinese firms might need to ameliorate foreign resources by developing or innovating their main functions, so these resources fit with and can be applied to local conditions. In the *Amelioration* phase of the leverage process, foreign resources and capabilities are very likely to have architectural changes from their original status. This is different to the *Adaptation* phase which does not refer to changes in nature or in a fundamental way, but only involve modest modification and coordination in terms of methods and practices.

According to respondents, amelioration relates to production in terms of technology, technique and innovation, within both equity- and non-equity-based linkages. For example, in the case of equity-based linkage (Figure 5.2-1), within Sino-foreign wine JVs, foreign experts and Chinese professionals work together to experiment and improve technology, techniques and experience of winemaking. This is joint development. In the case of non-equity-based linkages (Figure 5.2-2), because wholly foreign-owned wine firms are willing to spend money on sophisticated techniques and spend time on detailed discussion, the collaboration with them is helpful for local Chinese suppliers of wine bottles, labels, caps and auxiliary equipment to develop new techniques and innovative products. This is joint development and innovation/joint innovation.

Joint development and innovation/joint innovation are two approaches by which local Chinese suppliers ameliorate foreign resources and capabilities during collaborations with foreign affiliates (mainly wine affiliates) to satisfy the needs of the foreign affiliates, meet the needs of their own context, and achieve their own upgrading. Thus, they are categorised as the phase of *Amelioration*. Three examples from the findings illustrate the workings of this process. In one instance, when there were different opinions between Chinese and foreign consultants, Chinese winemakers compared the wine that was made according to their own schemes with the wine that they made following foreign consultants' schemes. Then, they utilised the most applicable solution for each step from both Chinese and foreign schemes (JV-Interviewee 4). There were also innovations that happened through collaborations between Sino-foreign wine JVs/wholly foreign-owned wine affiliates and local Chinese suppliers. For instance, in order to produce lightweight bottles with less cost, and ensure that the bottles are not friable, have a good sealing performance, and present the company's brand, a wholly foreign-owned wine affiliate provided sample bottles and discussed innovations for specially shaped bottles, wine labels and bottle caps with a local Chinese bottle manufacturer (WFO-Interviewee 1). In another example, when customising auxiliary

equipment for brewing workshops, a wholly foreign-owned wine affiliate provided a local Chinese manufacturer with design sketches. Then, the two parties worked together to discuss, amend and innovate the design plan (WFO-Interviewee 2).

Thus, *Amelioration* is a process whereby local Chinese firms, through development and innovation, significantly advance foreign resources and capabilities based on their original status. By doing this, local Chinese firms learn more about reconciling foreign assets and local realities, as well as improve their abilities in R&D and innovation. The ameliorated resources and capabilities are unique and competitive advantages specific to the local Chinese firms' ownership. It can be said that the *Amelioration* phase takes a substantial step forward for local Chinese wine firms to augment their O-specific advantages, resources and capabilities.

It should be noted that in circumstances where a foreign resource or capability is inapplicable to the new context and the strategies of *Adaptation* and *Amelioration* do not work, local Chinese firms must look for new resources and capabilities via linkages with other foreign affiliates. The approach to vine-pruning is an example of this situation. Foreign wine grape-growers typically prune vines before spring each year, but this experience is not suitable for wine regions in western China. Vines in western China need to be buried in the soil to prevent freezing damage in winter due to extremely cold weather. Vine-pruning can only be conducted after the vines are dug out in spring (E-Interviewee 5). Thus, in this case, a newcomer foreign affiliate's advice might not be helpful and so it becomes necessary to leverage relevant capability from experienced foreign affiliates who are well-established in China. This example illustrates a feedback loop in the model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country (see section 6.2).

As can be seen from the data and analysis above, in the Chinese wine industry, currently, most foreign resources and capabilities through Sino-foreign collaborations

are applied directly by local firms and some are utilised after being moderately adjusted and changed, but very few are ameliorated. This phenomenon reflects the development level of the Chinese wine industry. The current Chinese wine industry is still at an emerging stage and as such, firms in the industry, including wine-producing firms and upstream and downstream firms in the local wine industrial supply chain, still need to leverage new resources and capabilities from well-developed wine firms of foreign countries.

However, the vast majority of Chinese winemaking firms do not have the wherewithal to invest in the wine industry overseas in order to obtain these new resources and capabilities through connecting with foreign wine companies. There are at least three reasons for this. The wine industry-specific requirements for terroir and market suggests wine-producing enterprises need to be established in regions where location-specific conditions allow for this. Further, because the winemaking business needs a heavy investment but has a long payback period, wine industry investment offshore is too challenging for Chinese firms' limited capabilities. These include the need for financial strength, knowledge and techniques of winegrowing and winemaking, management expertise, marketing and sales experience, as well as industry-related networks, just to name a few. In addition, OFDI into the wine industry overseas requires investors to possess know-how regarding international investment, foreign wine trade, as well as the laws and regulations of the wine industries in foreign countries.

Therefore, a more feasible strategy for most local Chinese firms is to try to secure foreign resources and capabilities in the home country by forming relationships with foreign affiliates (mainly wine affiliates) in the Chinese wine industry via equity- and non-equity-based linkages. Despite its outward focus, the linkage-leverage-learning concept still provides a framework for a theoretical understanding of how this works. This empirical study, by exploring the impact of IFDI on firms in the Chinese wine industry, proves the feasibility of applying the linkage-leverage-learning strategy in the

home-country context. This study has refined three constructs for understanding how the linkage-leverage-learning concept can be applied to a home country industry and the processes of emerging market firms augmenting their O-specific advantages, resources and capabilities through multiple linkages with foreign MNEs. These three constructs are *Application*, *Adaptation* and *Amelioration*.

5.5 Learning - Building dynamic capabilities

As discussed in Chapter 2, “Learning” in the LLL framework refers to repeated linkage and leverage activities by which emerging market firms develop capabilities dynamically to compete with incumbent firms (Mathews, 2017). It is a dynamic process whereby emerging market firms, by exploiting their accumulated resources and capabilities, repeatedly experience linking with foreign affiliates through establishing equity JVs and non-equity-based collaborative relationships, and then, practise applying, adapting to and ameliorating new resources and capabilities from foreign affiliates within every linkage. During this process, local Chinese firms get to build dynamic capabilities and eventually augment and upgrade their O-specific advantages, resources and capabilities.

In order to compensate for shortcomings, local firms in the Chinese wine industry need to use the resources and experience of foreign MNEs for reference. However, as all interviewees recognised, simply copying foreign experience is not a sustainable solution for all circumstances. Instead, it is more important for local Chinese firms to develop their own dynamic capabilities. Some examples below relating to winemaking, enological excipients^{ix}-supplying and disputes about intellectual property rights, illustrate how local Chinese firms augmented existing assets by repeating linkages with foreign affiliates and leveraging foreign resources and capabilities.

Winemaking is not high-tech, but it is very sensitive to terroir and varying process conditions such as temperature, humidity, the shape and size of tanks, the texture of oak barrels, and the use of enological excipients. Additives include tannins, oak, metatartaric acid, citric, CMC, mannoproteins from yeast, to just name a few. Preservative mainly means sulphur dioxide. To address issues and challenges like these, it is more effective that local Chinese firms, through collaboration with different foreign affiliates, leverage different resources and capabilities for winegrowing and winemaking.

Suppliers of enological excipients, through collaborations with different Sino-foreign wine JVs and wholly foreign-owned wine affiliates, can elicit foreign investors' opinions on China's wine regions in terms of local grapes and the use of winemaking techniques. This is helpful for the suppliers to prepare better service solutions for the different requirements of Chinese and foreign winemakers (S-Interviewee 6). Foreign winemakers who do not have enough experience of working in China need to consult suppliers of enological excipients about local winemaking conditions and the corresponding usage and effect of enological excipients. Sometimes, foreign winemakers request urgent supplies of some specific enological excipients. These demands motivate suppliers to seek new solutions. Meanwhile, by co-working with different foreign experts, these local Chinese suppliers can acquire considerable know-how about dealing with winemaking details (S-Interviewee 9).

Another example that occurred in a Sino-foreign wine JV also illustrates the "Learning" of the LLL framework. According to a respondent (JV-Interviewee 1), wine labels and brand names are associated with intellectual property rights. Brand dispute cases taught Chinese wine firms to find legal solutions through collaborations with other foreign investing firms. The accumulated experience which they acquired was that patents, property rights and the rights of use, along with dispositions in case of a breach of contract, need to be recorded and regulated in investment agreements. Also, a related

understanding was that legal registrations for wine labels and brand names for target markets need to be properly organised.

These examples illustrate how repeated linkage and leverage activities with foreign affiliates create a process whereby local firms in the Chinese wine industry continuously improve their capabilities by integrating existing resources and capabilities. This is also a process whereby local Chinese firms continuously reflect on their own shortcomings and seek new solutions. Through this process, the capabilities and resources of local Chinese firms are augmented dynamically to equip them with competitive advantages to withstand further challenges.

5.6 The impact of IFDI on firms in the Chinese wine industry

This section addresses RQ3 about O-specific advantages, resources and capabilities contributed by foreign MNEs through linkages with local firms in the Chinese wine industry that are developed over time. Answers were collated from two aspects a) local Chinese wine firms, and b) local Chinese suppliers, distributors and alliance partners, through equity- and non-equity-based linkages. At the firm level, foreign O-specific advantages that local Chinese wine firms have augmented via Sino-foreign equity-based linkages (i.e., JVs) are examined. Also, at this level, foreign resources and capabilities that local Chinese suppliers, distributors and alliance partners have augmented via Sino-foreign non-equity-based transactional and collaborative linkages are investigated.

5.6.1 The augmentation of the O_H-specific advantages, resources and capabilities of local Chinese wine firms via equity-based linkages

This section discusses the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms via equity-based linkages with foreign affiliates (mainly wine affiliates) over time. Appendix 5.5 provides representative quotations

from respondents as supportive evidence. There were 25 interviewees who provided responses related to this question. These interviewees included four from Sino-foreign wine JVs, nine from local Chinese wine firms with Sino-foreign collaborations and 12 from wine institutions including China's wine regional governments, wine associations, wine research institutes and universities.

First, Chinese directors, through the interaction with foreign directors and an extensive period of business practice, acquire knowledge and expertise in corporate governance, international business, global investment and strategic management. The forging and improvement of corporate governance ability enables local Chinese wine firms to exploit Chinese and foreign investors' resources and expertise fully to operate the business, overcome ups and downs, and conduct global M&As. One respondent commented on his learning as follows:

(English translation)

The board of directors operates professionally. Chinese directors and foreign directors act on behalf of investors and shareholders. Any issue that is discussed on board meetings can only be proceeded when all directors reach an agreement. The board of directors is responsible to discuss, decide and audit the corporate investment programme, annual business plan, mergers & acquisitions and management appointments.

(JV-Interviewee 1)

Next, with the resources and capabilities leveraged from foreign JV partners, the local Chinese wine firms developed competencies in staff training, innovation, production and marketing. For example, employees improved their abilities including management expertise and winemaking concepts and techniques. Product quality improved dramatically and was accepted by foreign markets. Brand reputation and image were enhanced domestically and internationally, as new strategies and marketing approaches were developed, and new customer relationships were built overseas. There were

innovations in areas including products, techniques of winegrowing and winemaking, administration and management, as well as the production process. These helped the local Chinese wine firms reduce production costs and achieve a significant increase in sales and corporate profits. One interviewee introduced two examples of innovations in the management system as follows:

(English translation)

The first example was an innovation in our company car use system which improved the usage efficiency of company cars and saved on cost for the JV. The new company car use system first allocated each senior manager a company car for him or her to drive by him- or herself; then the company kept a necessary number of company cars and drivers, and sold the rest. The other example was an innovation in the scheme of management assessment and payment. The company collaborated with a third-party human resource company to work out the system of management assessment and salary structure in accordance with international standards.

(JV-Interviewee 1)

These are examples of innovation in administrative management systems. With the background of China transforming from a planned economy to socialist market economy from 1980s to 2000s, for large scale local Chinese firms, the two examples demonstrated not only corporate innovation, but also innovation in the way that corporate leader think.

Finally, the interviewee concluded the achievement of his firm via equity-based linkages with foreign affiliates over time by saying that,

(English translation)

Sino-foreign collaboration and communication facilitated the growth and development of our company. Chinese directors learned management knowledge and ideas from foreign directors. Now we can operate the business with an

international vision to avoid mistakes when considering major issues. It would be hard for a Chinese enterprise to go global if Chinese businesspeople simply applied Chinese-styled business thinking and management ideas.

(JV-Interviewee 1)

As can be seen, while operating wine business in China, Chinese wine firms leveraged O-specific advantages, resources and capabilities including tangible and physical assets from their foreign JVs partners, without going abroad. Then, Chinese wine firms conducted “Learning” activities (i.e., repeated linkage and leverage activities) by applying the augmented O-specific advantages, resources and capabilities to organising new Sino-foreign M&As and strategic collaborations domestically, and even internationally, so as to gain access to other resources and capabilities.

5.6.2 The augmentation of the O_H-specific advantages, resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages

Table 5.4 summarises the augmentation of the O-specific advantages, resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates. These opinions were provided by 19 interviewees from local Chinese suppliers and three interviewees from local Chinese distributors. As for the augmentation of the O-specific advantages, resources and capabilities of local Chinese alliance partners, supporting information was extracted from archival sources such as “The drinks business” (2019) and “chinanews.com” (2019a). Appendix 5.6 presents further evidence including representative responses from interviewees which were triangulated with the data from archival sources.

First of all, the interview findings and the archival sources show that through collaborations with Sino-foreign wine JVs and wholly foreign-owned wine affiliates,

Table 5.4 The augmentation of the resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates

Responses of local Chinese suppliers	Responses of local Chinese distributors	Responses of local Chinese alliance partners*
<p>Collaborations with Sino-foreign wine JVs</p> <p>a) Resources (e.g. information and international standards about product quality, production); b) Knowledge about wine bottle, cork and wine label; c) Management concepts and awareness of product quality; d) Concept and awareness of work environment and CSR; e) Market impact.</p> <p>Collaborations with wholly foreign-owned wine affiliates</p> <p>a) Resources (international standards on technology and product quality); b) Knowledge and experience about wine label, wine bottle, cork, equipment, oak barrel, package design and storage conditions; c) Awareness and expertise of quality control; d) Awareness of work environment and CSR; e) Market impact; f) Management expertise and concept on vineyard; g) Technology; h) R&D ability; i) Aesthetics about package and label design; j) Staff welfare; k) Employee's rigorous work attitude.</p>	<p>Collaborations with wholly foreign-owned wine affiliates</p> <p>a) Product knowledge; b) Chateau stories; c) Marketing and sales support (funds, staff etc.); d) Wine marketing strategies; e) A certain degree of market attention; f) Sales achievement.</p>	<p>Collaborations with Sino-foreign wine JVs</p> <p>a) Quality wines; b) Sales channels; c) Sales achievement.</p>

*Source: The drinks business, 2019; Chinanews.com, 2019a.

local Chinese suppliers enhanced their competencies in five areas. First, local Chinese suppliers acquired foreign resources such as international standards about product quality, technology and production, as well as advanced knowledge about wine labels, bottles, corks, equipment, oak barrels, package design and storage conditions. Second, local Chinese suppliers gained an awareness of quality control, improved management concepts and expertise relating to product quality systems.

Third, local Chinese suppliers developed awareness about work environment matters and CSR. During the field research, many examples of these outcomes were reported by participants. For example, because most Chinese wineries normally did not undertake ice bucket tests for wine labels, Chinese print houses as local wine label suppliers seldom had the opportunity to learn about this technique. One (S-Interviewee 11) of the interviewees discussed his firm's experience in this regard. He explained that through collaborations with wholly foreign-owned wine affiliates, his firm accumulated the experience of wine label ice bucket test which other Chinese label print houses did not have. His firm also learned about the technique of producing wine labels that will prevail in an ice bucket, and about different test standards for labels for red and white wines.

Fourth, local Chinese wine suppliers enhanced their market impacts. As Sino-foreign wine JVs and wholly foreign-owned wine affiliates enjoy an esteemed reputation in international and domestic wine markets, the collaboration with them helped local Chinese suppliers enhance their market impact. As one local Chinese wine label supplier (S-Interviewee 11) noted, the collaboration with wholly foreign-owned wine affiliates helped his firm build and expand market reputation, which brought more winery customers. Fifth, wholly foreign-owned wine affiliates also influenced local Chinese suppliers with management concepts and expertise (e.g., vineyard management), technology, R&D ability, design aesthetics (e.g., for packages and labels), staff welfare and employees' rigorous work attitudes. Local Chinese suppliers

not only learned and improved these competencies, but also planned to impart their experiences to their future customers. For instance, one local Chinese wine label supplier (S-Interviewee 11) said that wholly foreign-owned wine affiliates insisted on the consistency of wine labels to cultivate customers' brand awareness. His company learned this concept and delivered it to Chinese wineries that they collaborated with. Furthermore, the interview findings and archival sources show that through collaborations with Sino-foreign wine JVs and wholly foreign-owned wine affiliates, local Chinese wine distributors accumulated rich knowledge about wine products, winery stories, marketing and sales support, and wine marketing strategy, via the business linkages with wholly foreign-owned wine wineries. These resources equipped local Chinese wine distributors with enhanced skills to better market and sell wine products. By exploiting these resources and support, local Chinese wine distributors gained a certain degree of market attention and consequently, increased sales.

Respondents (D-Interviewee 1, D-Interviewee 2 and D-Interviewee 3) explained how collaborations with Sino-foreign wine JVs and wholly foreign-owned wine affiliates helped them improve their resources and capabilities. First, wineries provided training for distributors and their sub-distributors. The training content included vintage years, wine grape variety, wine characteristics, winery stories, brand culture, market directions and wine tasting. Through the training, front-line salespersons can better understand the quality of wine. Second, wineries provided distributors with market promotion funds. Winery representatives work with distributors to attend wine exhibitions, media conferences and consumer clubs throughout the country. During promotion events, distributors invited winery representatives to introduce their management ideas and modes, referring to grape-picking, green harvest, the usage of yeasts and oak barrels, aging time in barrels and in bottles before sale, and investors' business concepts. Third, when mentioning the marketing strategies of wholly foreign-owned wine affiliates, one respondent (D-Interviewee 3) said what he learned was that wholly foreign-owned wineries focused more on promoting wine culture and building distribution channels

and brands by providing value-added service for distributors and end-consumers. For instance, a foreign winery in China might not rush to make a profit but might start with a strategic deficit in order to gradually adapt to the Chinese market structure and local policies.

Additionally, strategic collaborative partnerships with Sino-foreign wine JVs made it possible for local Chinese wine distributors, as alliance partners, to gain exclusive distribution rights for quality wines made by the Sino-foreign wine JVs. Significantly, these local Chinese wine distributors expanded their distribution channels and increased sales through alliance agreements which allowed them to market their wines using the Sino-foreign wine JVs' sales channels. For example, in March 2019, ASC Fine Wines Co., Ltd. (ASC for short) and Changyu signed a strategic co-operation agreement that enabled Changyu and ASC to leverage each other's advantages in distribution channels. ASC will distribute wines produced by Chateau Changyu Moser XV via its well-developed horeca (hotel, restaurant and café) network, targeting Michelin-starred restaurants and upmarket hotels. In turn, selected wines that are represented by ASC will exploit Changyu's long-standing national distribution channels (chinanews.com, 2019a; The drinks business, 2019). This instance of the collaboration between Changyu and ASC typifies the way that local Chinese alliance partners enhanced their resources and capabilities via non-equity-based linkages with Sino-foreign wine JVs.

This discussion shows that overall, the non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates have facilitated the improvement of the productivity and competitive advantages of local Chinese suppliers, distributors and alliance partner firms. By linking with IFDI, Chinese firms in the local wine supply chain accessed and obtained foreign resources and capabilities without having to go overseas. With the augmentation of resources and capabilities, local Chinese suppliers, distributors and alliance partner firms better served the currently collaborative Sino-foreign wine JVs and wholly foreign-owned wine affiliates. Meanwhile, they were

better prepared to work with their upcoming customers and business partners. Further, they spread the learning including concepts, experiences and skills to their other domestic corporate customers. Additionally, at the current development stage of the Chinese wine industry, Sino-foreign wine JVs and wholly foreign-owned wine affiliates have carried out more business activities with domestic suppliers than with distributors and alliance partner firms according to their business needs.

5.7 The impact of IFDI on the development of the Chinese wine industry

This section addresses RQ4 by reporting on interviewees' responses when they were invited to offer a holistic view of the impact of IFDI on the development of the Chinese wine industry. Table 5.5 summarizes responses from interviewees including four from Sino-foreign wine JVs, three from wholly foreign-owned wine affiliates and 12 from wine institutions including China's wine regional governments, wine associations, wine research institutes and universities. Appendix 5.7 provides representative quotations from interviews as further supportive evidence.

The perception gleaned from interviews is that IFDI has facilitated the growth of the Chinese wine industry in terms of wine quality and the rapidity of the industry' development. This can be explained from seven aspects. First of all, IFDI has expanded the industrial scale of the Chinese wine industry by injecting capital, investing in wine equipment, and building vineyards and other winery buildings (E-Interviewee 6).

Next, foreign investors have promoted a spirit of persistence to produce quality wines, that is, the right concept and philosophy for the winery business. As one interviewee (E-Interviewee 7) explained the so-called "wine business philosophy" by saying that operating a winery was not for making quick money but about working conscientiously and steadfastly to make quality wines, and that foreign winery investors understand this

and are able to apply themselves to carrying on the business systematically. The interviewee continued to give an example of this:

(English translation)

Take Lafite as an example, the company's philosophy is making good wine but not making quick money. In 2010, Lafite decided to build a winery in Penglai. It built its vineyards from 2011 to 2016. Since then, it started to make wine. However, until 2017, it has not started to sell any wine. In terms of Lafite's wine-grape growing and vineyard management, its grape berries are better than those from other local vineyards. There are fewer pests and diseases in its vineyards. When Lafite started to establish its vineyards, it sent local soil samples to France to test microelements and organic matter. Then according to the test results and local climate, Lafite chose suitable grape varieties. During the planting process, Lafite's technicians used little flags to mark weaker vines, analysed reasons and looked for solutions. As a result, Lafite has controlled the quantity of grape berries very well and nearly all the grape berries are growing at the same height from the ground.

(E-Interviewee 7)

Another interviewee (E-Interviewee 1) commented that the concept and philosophy of foreign winery investors about the winery business was in line with the vinification of good wine and can lead the business to a certain success. The spirit of Sino-foreign wine JVs and wholly foreign-owned wine affiliates regarding persisting in the pursuit of quality wine, has inspired Chinese wine professionals and the officials of the local wine bureaux. More and more Chinese wine professionals and local wineries follow the foreign philosophy of the winery business. According to interviewees (E-Interviewee 2; E-Interviewee 7), an increasing number of wine-producing firms in China have their own vineyards. Local winery investors have understood that they need to put more capital into vineyards than winery buildings and equipment (E-Interviewee 7), and as such they need a solid plan from the beginning to prepare for strategically losing money in the first few years, that is, for a lack of profit and negative cash flows in the first few

years (E-Interviewee 2). Through the demonstration effect, Sino-foreign wine JVs and wholly foreign-owned wine affiliates have helped local Chinese wine investors build an understanding and awareness of the winery business. Also, the foreign concept and philosophy of the winery business shed light on local wine bureau officials with ideas of positioning local wine regions and managing local wine production. By combining

Table 5.5 The impact of IFDI on the development of the Chinese wine industry

Impact of IFDI on the development of the Chinese wine industry	Responses of Sino-foreign wine JVs	Responses of wholly foreign-owned wine affiliates	Other responses*
Expanding industrial scale	Investment of capital.	Expansion of the capacity and scale of the local wine industry by investing capital, investing wine equipment, and building vineyards and other winery buildings.	Expansion of the capacity and scale of the local wine industry by investing capital, investing wine equipment, and building vineyards and other winery buildings.
Introducing concept and philosophy of the winery business	Acceleration of the improvement of wine quality.	Persistence spirit to producing quality wines.	Philosophy of the winery business.
Closing technological distance with international advanced level	a) Advanced know-how and techniques of winegrowing and winemaking; b) Different ideas and methods of business and management (e.g., corporate governance structure), and management experience; c) A certain degree of competition; d) Motivations for R&D, knowledge exchange and technological competence; e) Professional training.	a) Advancement of techniques and skills; b) Improvement of technology; c) Enhancement of management expertise; d) Stimulation of R&D and innovation; e) Talents training.	a) Enhanced winemaking techniques; b) Developed vineyard management experience; c) Advanced corporate management concepts/systems (HR, finance); d) Technical innovation according to local situations; e) Career development with international resources for local staff.
Creating a climate for Sino-foreign communication on wine techniques			Sino-foreign communication on wine techniques
Engaging in wine education			Chinese consumer education of Western wine culture and wine awareness.
Advertising and promoting local wine regions		Brand promotion of the wine-producing region.	Advertisement for China's wine regions to attract more investment and expand the wine region's scale.
Boosting industrial confidence			Boost of the confidence of consumers and local wine firms to the Chinese wine industry.

*Other responses refer to responses of interviewees from wine institutions including China's wine regional governments, wine associations, wine research institutes and universities.

foreign developed concepts and local realities and features, local wine bureau officials can make policies better suited for the sustainable development of the local wine industry (E-Interviewee 6).

Also, IFDI has helped bridge the gap between the Chinese wine industry and the developed wine industries of other countries in three areas. First, Sino-foreign wine JVs and wholly foreign-owned wine affiliates have helped lift the overall level of technology and management of the Chinese wine industry (WFO-Interviewee 2). Sino-foreign wine JVs and wholly foreign-owned wine affiliates, to some extent, caused competition and pushed local Chinese firms to improve every aspect of the business, including wine quality, R&D demand, innovation, knowledge exchange and technological competence and so indirectly stimulated the development of the Chinese wine industry (JV-Interviewee 4). Second, Sino-foreign wine JVs and wholly foreign-owned wine affiliates have helped improve the overall quality of local employees in the Chinese wine industry. Many former employees from Sino-foreign wine JVs and wholly foreign-owned wine affiliates have now become the backbone of the current Chinese wine industry, and have taken responsibility for training young professionals (JV-Interviewee 3). Third, the learning circle has been enlarged since Sino-foreign wine JVs and wholly foreign-owned wine affiliates welcome visitors from other local wineries and are willing to share their experience with them (E-Interviewee 3).

Furthermore, IFDI into the Chinese wine industry has helped create a climate for Sino-foreign communication regarding wine techniques. Foreign wine technical consultants who stay and work in China study local climate and soil thoroughly, which is beneficial to local wine grape cultivation (E-Interviewee 6). Sino-foreign wine JVs and wholly foreign-owned wine affiliates have demonstration and promotion effects of winegrowing and winemaking, and so help improve the related techniques of local wine industry. For instance, Chandon built a winery in Ningxia and produces very good sparkling wine. Its vineyard management is quite successful, which attracts many visitors (E-Interviewee 3). Also, Sino-foreign wine JVs and wholly foreign-owned wine affiliates integrate international resources and provide a new platform for their local staff to innovate techniques according to local situations. They welcome local wineries

to visit their workshops and vineyards, and share their experience with visitors (E-Interviewee 3).

Moreover, Sino-foreign wine JVs and wholly foreign-owned wine affiliates educate Chinese consumers about wine culture and help them build wine awareness. While marketing and selling wines in China, foreign wine affiliates bring in wine education, and transmit Western wine culture and knowledge to Chinese consumers (E-Interviewee 7). This helps cultivate potential customers for local Chinese wine enterprises. Wine is a product with a personality. Only when Chinese consumers have enough knowledge of wine, and the wine consumption gains a certain degree of popularity, will Chinese wine consumers start to look for wines with different characteristics. Only when consumers reach a certain number, can wineries further segment the market (E-Interviewee 3).

In addition, IFDI into the Chinese wine industry has generated advertising benefits and opportunities for local wine regions. For example, Lafite's investment in Penglai and LVMH's investment in Ningxia attracted the attention of international media such as Reuters and the Washington Post to Penglai and Ningxia of China (WFO-Interviewee 2; E-Interviewee 3). As a result, IFDI has greatly improved the brand recognition of local wine regions (E-Interviewee 3, E-Interviewee 4, E-Interviewee 6, E-Interviewee 7). Further, the demonstration effect of IFDI into the Chinese wine industry has helped attract more investment and expand the scale of China's wine regions (E-Interviewee 6).

Last but not least, increasing IFDI has helped boost the confidence of Chinese consumers and local Chinese wine firms in developing the Chinese wine industry. As respondents said, the advent of IFDI into the Chinese wine industry signalled that China has natural conditions suitable for growing wine grapes and producing quality wines (E-Interviewee 3, E-Interviewee 7) and that IFDI values the potential of China's wine market (WFO-Interviewee 1). Foreign investors bring in capital, advanced technology and management ideas which have facilitated the development of the Chinese wine industry (WFO-Interviewee 1). IFDI into the Chinese wine industry has proved the potential and necessity of developing the industry.

As can be seen from Table 5.5, interviewees from Sino-foreign wine JVs, wholly foreign-owned wine affiliates and other wine institutions (e.g., China's wine regional governments, wine associations, wine research institutes and universities) had unanimous opinions about the impact of IFDI on the philosophy of the winery business and the improvement of capacity of the Chinese wine industry in terms of technology, management, the quality of employees, and the industrial learning circle. Also, interviewees from other wine institutions were able to evaluate the impact of IFDI on the Chinese wine industry as a whole, from another four aspects, namely Sino-foreign communication on wine techniques, wine education, wine region promotion and industrial confidence. Overall, the impact of IFDI has been examined and proved by successful stories in the Chinese wine industry. IFDI has played a catalyst role in facilitating the development of the Chinese wine industry.

5.8 Conclusion

China, as an emerging wine region with terroir that differs from the “Old World” and “New World”, along with a huge potential wine market, has attracted investment by foreign wine MNEs into the local wine industry. Foreign wine MNEs have brought in O-specific advantages, resources and capabilities such as advanced technology, techniques and experience in winegrowing and winemaking, expertise in corporate governance and vineyard management, and well-developed concepts/philosophies of wine/winery business, amongst others.

By drawing on L-specific advantages and home advantages as a springboard, local firms, including wine-producing enterprises, suppliers and distributors in the Chinese wine industry, have strategically connected with IFDI via equity- (JVs) and non-equity-based (other collaborative partnerships) linkages. By doing this, local Chinese firms have been able to leverage foreign O-specific advantages, resources and capabilities for upgrading. Further, leveraging foreign O-specific advantages, resources and capabilities is not simply “obtaining” or “acquiring” but “developing” through a rich process where *Application*, *Adaptation* and *Amelioration* occur iteratively. By practising dynamic capabilities that have been built through the linkage-leverage-learning activities, local Chinese firms have gradually augmented their

O-specific advantages, resources and capabilities and consequently, uplifted the level of the competence and competitiveness of the entire Chinese wine industry.

The leverage process of foreign O-specific advantages, resources and capabilities in the home country conceptualised in this chapter, is presented in Chapter 6 as a process model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country.

Chapter 6 Discussion and conclusion

6.1 Introduction

This thesis examined the impact of IFDI on firms in the Chinese wine industry and consequently, on the entire Chinese wine industry. Specifically, the thesis set out to shed light on the process whereby local Chinese firms upgraded their competences by leveraging foreign O-specific advantages, resources and capabilities via direct Sino-foreign inter-firm linkages. The foci of the thesis were equity- (i.e., JVs) and non-equity-based linkages (e.g., other collaborative partnerships) between local Chinese firms and foreign affiliates, along with the concomitant transfer of O-specific advantages, resources and capabilities from the latter to the former. Three theoretical frameworks, viz. the IDP framework, the OLI paradigm and the LLL framework were employed to explore the impact of IFDI at both firm and industry levels, with complementary lenses on what the impact was and how the impact happened in the home country of emerging market firms. The findings of the study and the model that has been developed provide a better understanding of IFDI as a catalyst in the development of the Chinese wine industry.

To recap, the IDP framework provides a macro environment for FDI inflow to emerging economies and the consequent changes of OLI configuration by explaining the interaction between FDI and the growth of a country's economy. The OLI paradigm explains why, where and how MNEs organise value adding activities abroad by internalising O-specific advantages from their overseas parent companies through FDI into foreign affiliates. The LLL framework suggests an accelerated internationalisation strategy for emerging market MNEs to leverage new resources and consequently, improve their competences by creating linkages with incumbent enterprises in developed countries.

In response to the research objectives, this study addressed four research questions (see Chapter 5). First, the findings showed that foreign MNEs contributed foreign O-specific advantages, resources and capabilities via equity- and non-equity-based linkages with local Chinese firms at the entry of IFDI into the Chinese wine industry (RQ1). Second, the study closely examined “Leverage” as a process involving *Application*, *Adaptation* and *Amelioration* by emerging market firms to internalise foreign O-specific advantages, resources and capabilities and eventually, achieve the augmentation of their own O-specific advantages, resources and capabilities in the home country (RQ2). Third, the findings demonstrated that emerging market firms leveraged foreign resources and capabilities via Sino-foreign equity JVs and non-equity-based collaborative partnerships with foreign affiliates, and even foreign O-specific advantages via Sino-foreign equity JVs, to facilitate their upgrading (RQ3). Fourth, the findings explained that IFDI played a catalyst role in the development of the Chinese wine industry (RQ4). Therefore, the study has provided an alternative approach of emerging market firms pursuing foreign advanced resources. Specifically, instead of going global (Mathews, 2006a; 2017), emerging market firms can leverage foreign resources and capabilities via linkages with IFDI in the home country.

This chapter is outlined as follows. Section 6.2 presents an illustrative model of IFDI’s impact on the upgrading of emerging market firms and their industry in the home country, with detailed explanations of the process whereby IFDI contributes to the development of local firms in the Chinese wine industry and consequently, the entire Chinese wine industry. Sections 6.3 and 6.4 explain the theoretical contributions, as well as policy and managerial implications of the study. Section 6.5 discusses the limitations of the study, while further research orientations are noted in section 6.6. Finally, section 6.7 concludes the study by highlighting the application of the key theories, as well as the theoretical and practical significance of the research.

6.2 The model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country

This section, by building on the findings and briefly integrating key theories, explains how IFDI impacts the augmentation of the O-specific advantages, resources and capabilities of local firms in the Chinese wine industry and the consequent development of the Chinese wine industry.

Figure 6.1 shows the model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country by illustrating the interactive relationship between constructs of "Ownership-specific advantages (O)", "Location-specific advantages (L)", "Internalisation-specific advantages (I)", "Linkage", "Leverage" and "Learning" from the OLI paradigm and the LLL framework. The area that is framed by a purple dashed box is an emerging market industry with Location-specific advantages (L_H). Foreign MNEs adopt either JV or wholly foreign-owned affiliate as an entry mode to invest in the host market.

The model incorporates six distinct stages starting from the point when foreign MNEs bring foreign O-specific advantages, resources and capabilities upon IFDI entry to an emerging market industry, then local firms in the Chinese wine industry achieve their augmentation of O-specific advantages, resources and capabilities, until the Chinese wine industry achieves its development. The first four stages feature different types of linkages and the accompanying transfer of resources and capabilities. The penultimate stage is the outcome, at the firm level, of the repeated application of resource leverage from foreign affiliates to local firms via multiple inter-firm linkages. The last stage is the final outcome, at the industry level, of a certain number of local firms upgrading.

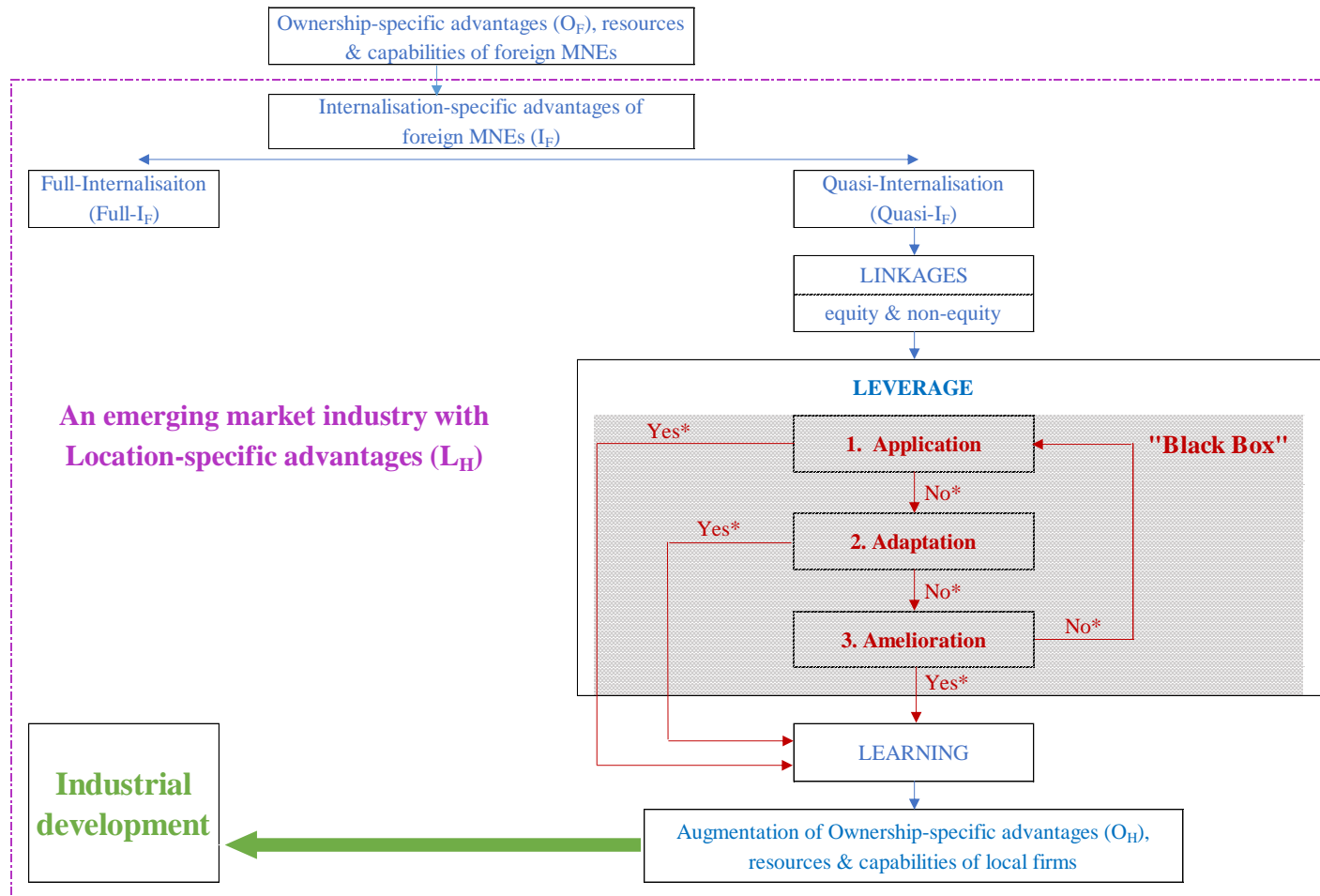


Figure 6.1 The model of IFDI's impact on the upgrading of emerging market firms and their industry in the home country

*Yes: Foreign resources are suitable for local situation and can be applied in this phase. Then, local firms move to "Learning", the fourth stage of the model.
No: Foreign resources are unsuitable for local situation and cannot be applied in this phase. Then, local firms move to the next phase of "Leverage".

The first stage happens between foreign MNEs and their affiliates in host countries. It centres on foreign O-specific advantages (O_F), resources and capabilities introduced by overseas parent companies to host country affiliates via intra-firm internalisation (Full- I_F). The foreign affiliates act as a bridge for foreign resource transfer (I_F) to the host country. This stage applies the notions of “O” and “I” within the OLI paradigm. Ownership-specific advantages (O) are firm-specific assets (Dunning, 1988b). Internalisation-specific advantages (I) refer to the ways in which MNEs organise value-adding activities across borders and the extent to which these occur (Dunning, 2000; 2001). Through the affiliates in the host country, foreign MNEs explore their O-specific advantages across the borders for international production. The affiliates internalise O-specific advantages and other resources and capabilities from their parent companies and organise value-adding activities in overseas market.

The second stage focuses on direct inter-firm linkages through which foreign O-specific advantages, resources and capabilities are transferred or diffused to domestic firms. The quasi-internalisation (quasi- I_F) of foreign O_F -specific advantages, resources and capabilities to local firms can be divided into two paths. The first path is that local partner firms make equity-based linkages to co-establish JVs with foreign affiliates. Through this equity-based partnership, O_F -specific advantages are transferred by local partner firms from their foreign business partner firms. The other path occurs via other collaborative partnerships, viz. transactional relationships mainly between Sino-foreign JVs/wholly foreign-owned affiliates and local suppliers/distributors/alliance partners. Through these non-equity-based linkages, foreign resources and capabilities are transferred by local suppliers/distributors/alliance partners from their foreign business counterparts.

This stage applies the notion of “Linkage” within the LLL framework and inter-firm linkage forms. Linkages between foreign and local firms include equity- (JVs) and non-equity-based (other collaborative partnerships) (Pan & Tse, 2000). By building multiple foreign-local inter-firm linkages, local firms get to access foreign O-specific advantages, resources and capabilities and achieve consequent transfers of foreign

assets (Dunning, 1995; Gulati, 1995). The transfer of foreign O-specific advantages, resources and capabilities via direct inter-firm equity- and non-equity-based linkages is one focus of this study.

The phenomena that happen at the first and second stages provide answers to RQ1 on what O-specific advantages, resources and capabilities foreign MNEs contribute through linkages with local firms on the entry to the Chinese wine industry. For example, in the case of equity-based linkages, foreign MNEs as foreign JV partners brought in O-specific advantages such as wine distribution channels. They also brought in resources including a) vineyards, b) winery buildings, c) equipment, d) access to foreign markets, f) technology, techniques and experience for winegrowing and winemaking, g) international media, and h) Sino-foreign technical exchange. Again, they brought in capabilities including expertise in a) Western concepts of the winery business, b) winery and vineyard management, c) staff training, d) corporate governance, e) internationality, f) marketing, sales and branding, g) production differentiation, and h) market reputation.

In the case of non-equity-based linkages, firstly, take backward linkages as an example, Sino-foreign wine JVs and wholly foreign-owned wine affiliates provided local Chinese suppliers with foreign resources including product standards, overseas samples, quality management systems, and knowledge and experience regarding factory inspection. In terms of forward linkages, wholly foreign-owned wine affiliates provided local Chinese wine distributors with marketing funds, assistance with promotion events and tastings such as wine samples and support staff, product-related training, as well as industry information for marketing plans. Thirdly, Sino-foreign wine JVs offered their local Chinese alliance partners sales channels, quality wine products, market reputation, exclusive distributorship, as well as marketing support such as capital, winery tourism and wine-related training.

The third stage highlights the process of “Leverage” and aims to shed light on the exact experiences of local firms in response to foreign O-specific advantages,

resources and capabilities that they gain access to, which has previously remained a so-called “Black Box”. The study uncovered three phases of the leverage process. The first phase is *Application* where foreign resources and capabilities acquired from foreign affiliates are suitable for the local situation and can be applied directly. Then, local firms move to the fourth stage of the model, viz. “Learning” where they proceed to apply the next round of linkage and leverage. This scenario is indicated in the model as “Yes” (Figure 6.1). However, if the foreign resources and capabilities are unsuitable for the local situation and as such cannot be applied directly in the first phase, local firms will move to the next phase of “Leverage”. This scenario is indicated in the model as “No”.

The second phase is *Adaptation*. In this phase, local firms might adjust the local situation in order to apply foreign resources and capabilities; or foreign resources and capabilities that cannot be applied directly, might be changed slightly in order to adapt to the local situation. If by doing so, the foreign resources and capabilities become adaptable to the local situation and are applied in this phase, local firms will move to “Learning”, the fourth stage of the model. This scenario is also indicated in the model as “Yes”. However, if the foreign resources and capabilities still do not suit the local situation and cannot be applied in the second phase, local firms will again move to the next phase of “Leverage”. This scenario is also indicated in the model as “No”.

The third phase is labelled as *Amelioration*. In this phase, local firms might develop or even innovate foreign resources and capabilities based on their original status in order to better fit local conditions. After being ameliorated, if the foreign resources and capabilities are applied to the local situation, local firms will move to “Learning”, the fourth stage of the model. This scenario is again indicated in the model as “Yes”. However, if the foreign resources and capabilities still cannot be applied to the local situation, local firms can only proceed to make linkages with other foreign affiliates for new foreign resources and capabilities, then, repeat the three phases of

“Leverage”. This situation is indicated in the model as “No” and further illustrated by a feedback loop.

Thus, “Leverage” is a process of local Chinese firms managing foreign acquisitions from direct adoption to improvement and innovation. This stage applies the notion of “Leverage” within the LLL framework to examine how the “leverage” works as a process whereby local firms upgrade by internalising or quasi-internalising foreign O-specific advantages, resources and capabilities (Mathews, 2006a; 2017). The leverage process is another focus of the study. Enriching the meaning of the “Leverage” will be discussed further as a theoretical contribution in section 6.3.2.

The fourth stage is labelled as “Learning” in line with Matthew’s (2006a; 2017) LLL framework. After the leverage process, local firms “obtain” or “acquire” and “own” foreign resources and enhance competences. With better abilities, they start repeating the “Linkage” and “Leverage” activities to develop capabilities and internalise new foreign O_F-specific advantages, resources and capabilities in the home country by exploiting existing O_H-specific advantages, resources and capabilities. The repeated linkage and leverage activities help local firms nurture their capabilities.

This stage applies the notion of “Learning” within the LLL framework. The value of “Learning” is that the repeated linkage and leverage activities help emerging market firms build dynamic capabilities (Mathews, 2006a; 2017). It is an action, and also an iterative and dynamic process through which emerging market firms keep reflecting on their own shortcomings and seeking upgrading.

The phenomena which occur at the third and fourth stages provide answers to RQ2 on how foreign MNEs contribute to the augmentation of the O-specific advantage, resources and capabilities of local firms in the Chinese wine industry. For example, in Sino-foreign JVs (viz. equity-based linkages), local firms demonstrate three major phases in the process of leveraging foreign O-specific advantages, resources and capabilities. In phase a) *Application*, local investors learned and applied knowledge

and experience from foreign investors, local executives implemented foreign director's decisions, local staff members followed foreign expert's instructions and adopted foreign experience, local production complied with international standards and regulations, and export-oriented products complied with the rules in the target markets. In phase b) *Adaptation*, in order to improve foreign resources to suit local conditions better, foreign and local directors, as well as foreign and local staff members needed to effectively communicate, co-ordinate and collaborate, so as to integrate each other's expertise. In some instances, one of the parties may need to compromise. In phase c) *Amelioration*, when foreign and local professionals cannot persuade each other based on previous experience, experimentation usually generated an effective approach to achieve better solutions. Lastly, lessons from past failures taught local firms to source different solutions from other Sino-foreign linkages.

The fifth stage is "Augmentation of O-specific advantages (O_H), resources & capabilities of local firms" – this is the outcome of applying the OLI paradigm, the LLL framework and inter-firm linkages between foreign and local firms. Through the "Learning", namely repeated linkage and leverage activities, local firms continue to accumulate and upgrade their O_H -specific advantages, resources and capabilities (Mathews, 2006a; 2017).

The phenomenon that occurs at the fifth stage provides answers to RQ3 whereby O-specific advantages, resources and capabilities contributed by foreign MNEs through linkages with local firms in the Chinese wine industry are developed over time. For example, in case of equity JVs, through collaborations with foreign directors, Chinese directors acquired knowledge and expertise in corporate governance, international business, global investment and strategic management, and applied them to M&As domestically and internationally. Meanwhile, local Chinese wine firms accumulated experience in staff training, innovation, production and marketing.

In the case of non-equity-based partnerships, firstly, take backward linkages as an example, through collaborations with Sino-foreign wine JVs and wholly foreign-owned wine affiliates, local Chinese suppliers augmented resources and capabilities including a) resources and knowledge of products such as bottles, corks, wine labels, oak barrels, package design, equipment and storage conditions, b) the concept of management, c) the awareness of product quality, work environment and CSR, d) market impact, e) expertise in vineyard management, f) technology, g) R&D ability, and h) employee's rigorous work attitude. In terms of forward linkages, local Chinese wine distributors gained knowledge of wine products and wineries, wine marketing strategies, marketing support, market attention and sales achievement. Thirdly, local Chinese alliance partners obtained quality wine products, sales channels and sales achievement.

The last stage is industrial development. The IDP framework explains the relationship between IFDI and a country's economic growth. First, when a country's economy develops, its L-specific advantages improve (Dunning & Narula, 1996). For instance, in the country, the stock of created assets based on professional training, technological capacity and industrial absorptive capacity increases. Government policies are supportive of IFDI. Local firms upgrade their O-specific advantages and develop knowledge, skills and experience. Consumers' buying power is enhanced and market demand increases. Thus, the country becomes attractive to IFDI (Dunning & Narula, 1996). Second, there is a dynamic relationship between industrial development and IFDI. IFDI facilitates the upgrading of local firms, which in turn, underlies industrial development (Narula & Dunning, 2000; 2010).

In this study, China-specific terroir and huge market potential, along with other L-specific advantages such as government's supportive policies for developing the local wine industry, relatively cheap labour force, high industrial absorptive capacity and developed supply chain and logistics, attract IFDI into the Chinese wine industry. As the study shows, IFDI facilitates the upgrading of local firms in the Chinese wine industry, which underlies the development of the Chinese wine industry.

The phenomenon which occurs at the sixth stage provides answers to RQ4 regarding the impact of IFDI on the development of the Chinese wine industry. IFDI has played a catalyst role in the development of the Chinese wine industry in seven aspects.

First, IFDI has expanded the industrial scale of the Chinese wine industry. Second, IFDI has introduced concepts and philosophies of the winery business. Third, IFDI has helped bridge the technological gap between the Chinese wine industry and its international counterparts. Fourth, IFDI has helped create a climate for Sino-foreign communication regarding wine techniques. Fifth, IFDI has engaged in wine education of Chinese consumers. Sixth, IFDI has helped advertise and promote Chinese wine regions domestically and internationally. Seventh, IFDI has boosted the confidence of Chinese consumers and local wine firms in developing the Chinese wine industry.

The model diagrammatically illustrates the relationships between key theoretical constructs of interest and how they capture the process of local firms upgrading domestically and industrial development. In this way, this model shows an overall process by which IFDI contributes to the augmentation of the O_H -specific advantages, resources and capabilities of emerging market firms in the home country and consequently, the development of the home country industry.

6.3 Theoretical contributions

This research contributes theoretically to existing studies from three primary perspectives: the application of the LLL framework to Chinese firms in a home, rather than host, country context, the provision of a richer understanding of “Leverage” within the LLL framework, and the creation of a model which illustrates an overall process whereby IFDI plays a catalyst role in developing emerging market industries.

6.3.1 The application of the LLL framework in a home-country context

The first theoretical contribution is that this study applies the LLL framework in a home-country context, by combining the OLI paradigm, to examine the leverage

process of local firms “obtaining” O-specific advantages (e.g., techniques, technology, knowledge, experience, resources and capability) from foreign affiliates. This is a local firm-level empirical study. The unit of analysis of the study is firm. The study context is the firm’s home country. The research objective is to examine the leverage process – that is to understand how merging market firms leverage the O_F -specific advantages, resources and capabilities of foreign affiliates to eventually upgrade the O_H -specific advantages, resources and capabilities of the emerging market firms in the home country. Although the OLI paradigm and the LLL framework are outward-oriented, this study integrates the interaction between the O- and I-specific advantages from the OLI paradigm, and the concept of linkage-leverage-learning from the LLL framework, to focus on the transfer and diffusion of foreign O-specific advantages, resources and capabilities to local firms via equity- and non-equity-based inter-firm linkages between foreign and local firms in a home-country context. Given that “Learning” in the LLL framework is defined as repeated linkage and leverage activities and a means of accumulating capabilities in a dynamic fashion, the understanding of the leverage process facilitates the application of the LLL framework to emerging market firms’ home context.

Further, the combination of the O-L-I (Ownership-Location-Internalisation) and L-L-L (Linkage-Leverage-Learning) constructs adds to previous explanations of local firm upgrading strategy. “Linkage” within the LLL framework embodies equity-based inter-firm linkages (e.g., JVs) and non-equity-based inter-firm linkages (e.g., other collaborative partnerships). “Learning” within the LLL framework is a process by which a firm’s capabilities of linkage and leverage are continuously forged and strengthened and consequently, further improve the firm’s O-specific advantages, resources and capabilities. These findings enhance the understanding of the process of building a home firm’s O-specific advantages, resources and capabilities.

When compared with previous applications of Mathews’ LLL framework (2006a; 2017), this study makes some distinctive contributions. First of all, this thesis

proposes a different way (than suggested by prior research) to understand the upgrading of emerging market firms, and it does so from three perspectives.

The first perspective is that the LLL framework studies firms in pursuit of resources and new customers in foreign markets (Mathews, 2006a; 2017), whereas this thesis focuses on firms in emerging countries with IFDI bringing in foreign resources and capabilities. For example, Mathews' studies on a group of emerging market MNEs provided support for the LLL framework. Ispat, an Indian steel firm leveraged Direct Reduced Iron technology through an M&A in Austria (Mathews, 2017). Goldwind, a Chinese wind turbine manufacturer internalised Permanent Magnet Direct Drive technology by acquiring a local firm, Vensys, in Germany (Mathews, 2017). Lenovo, a Chinese high-tech company acquired management expertise and global reach by means of a merger with IBM's PC unit in the US (Mathews, 2006a). A study by Thite et al. (2016) applied the LLL framework to investigate the internationalisation of Indian MNEs. It showed that these Indian firms acquired existing players in developed countries and then leveraged competitive assets and clients from their business partners. By contrast, this thesis studies local firms (including wineries, suppliers and distributors) in the Chinese wine industry where renowned foreign wine MNEs and other capital investors bring in well-developed knowledge, experience, expertise and foreign resources in winegrowing, winemaking, vineyard management, winery operation, wine product marketing, staff training and corporate governance, just to name a few.

The second perspective is that with the same motivation of seeking foreign resources, the LLL framework is designed for international expansion (Mathews, 2006a; 2017) while this study focuses on the home-country base. For instance, Tan and Mathews (2015) studied two Chinese wind turbine manufacturers, Goldwind and Sinovel, who applied the LLL framework to accelerate their internationalisation. Goldwind expanded its footprint into the US, Australia, Chile, Romania and Panama; and Sinovel moved into South Africa, India, Turkey, Sweden and the US. It showed that in order to internationalise the business and access foreign markets, emerging market

firms built comprehensive subsidiaries including wholly-owned affiliates and equity JVs in foreign countries. While organising international production and marketing activities, emerging market MNEs made linkages with foreign incumbent firms and leverage foreign resources and capabilities to enhance their competences. Further, on the basis of the iteratively-built capabilities and augmented resources, these emerging market MNEs repeated linkage and leverage activities with other foreign local firms in targeted overseas markets. Eventually, the emerging market MNEs spread their business around the world.

In contrast, this thesis studies how local firms in the Chinese wine industry upgrade without going abroad. In the Chinese wine industry, there are foreign MNEs that bring in developed O-specific advantages, resources and capabilities in order to exploit the Chinese terroir and market. By building equity JVs or non-equity-based collaborative partnerships with foreign affiliates, many local firms can leverage foreign techniques, experience and expertise in various fields. These fields include almost every aspect of the local wine business, such as viticulture, winemaking, vineyard management, winery operation, corporate governance, winery construction, the design and production of wine labels, bottles, packaging, as well as wine marketing and sales. Then, the local firms can also repeat linkage and leverage activities with other foreign affiliates in the Chinese wine industry. Many local firms in the Chinese wine industry can upgrade their competences by applying the concept of linkage-leverage-learning in their home country.

The third perspective is that in the LLL framework, small and medium-sized firms from developing countries form collaborative partnerships with incumbent firms in foreign markets to offset shortcomings due to foreignness (Mathews, 2006a). However, in this study, local emerging market firms form JVs and/or other collaborative partnerships with foreign affiliates to access foreign resources and capabilities. For example, prior empirical studies on the LLL framework showed that in order to overcome the liabilities of foreignness, emerging market MNEs established wholly-owned affiliates and/or equity JVs with foreign partner firms in

developed countries to get access to new markets (Bartlett & Ghoshal, 2000; Mathews, 2006a; Sun, 2009), build international supply chains to reduce production costs (Mathews, 2006a), and secure talent, advanced knowledge, cutting-edge technology (Tan & Mathews, 2015) and distribution channels (Scott-Kennel, Yin & Akoorie, 2019). By contrast, this thesis shows that to leverage foreign O-specific advantages, resources and capabilities, local firms in the Chinese wine industry make linkages with foreign affiliates by establishing Sino-foreign wine JVs, as well as Sino-foreign transactional and collaborative partnerships.

Furthermore, the LLL framework is also applicable to well-developed technology firms from advanced countries in search of customers by going overseas (Mathews, 2006a). By contrast, in this study, the market, as one of the L-specific advantages of emerging countries, attracts both foreign and domestic investors and as such, local firms' priority is to satisfy domestic customers. Therefore, the application of the LLL framework in a home-country context can be regarded as an alternative and complementary resource strategy for firms in search of foreign resources that once seemed inaccessible without going overseas. This option is feasible as long as some L-specific advantages (e.g., terroir and market) can be met.

6.3.2 A richer understanding of “Leverage” in the LLL framework

The second theoretical contribution is that this thesis enriches the understanding of “Leverage” in the LLL framework.

6.3.2.1 A “Black Box” in the LLL framework - The “leverage process”

In the LLL (linkage-leverage-learning) framework, Mathews defined “Leverage” as “securing technologies and other resources from ...linkages” (2017, p. 771) and “gaining access to technologies and/or market position as resources that lie outside the DM^x...” (2017, p. 771). However, “Leverage” in the LLL framework does not simply equate “securing” and/or “gaining access to” technologies and resources. The LLL framework itself neglects to explain what might happen after emerging market

firms gain access to or secure foreign resources. Nor does it adequately examine the process by which these resources are secured.

In order to open the “Black Box” of leverage process (Figure 6.1) and investigate what is going on inside it, this study, by analysing interviewees’ responses, refines three theoretical constructs to label the three phases of the process whereby local firms in the Chinese wine industry leverage foreign O-specific advantages, resources and capabilities. The three theoretical constructs are *Application*, *Adaptation* and *Amelioration*. They demonstrate the changing degree of foreign assets after local Chinese firms acquire these assets from foreign affiliates. Of these three theoretical constructs, *Amelioration* is an aggregated concept which includes several different types of leverage such as joint development, innovation and joint innovation. For example, specifically, in the case of the transfer of foreign O-specific advantages, resources and capabilities via equity-based linkages, Chinese and foreign winemakers in Sino-foreign wine JVs achieved the joint development of winemaking competences by working together to conduct experiments (Figure 5.2-1). In the case of the transfer of foreign resources and capabilities via non-equity-based linkages, local Chinese suppliers achieved the joint development of techniques with wholly foreign-owned wine affiliates, the innovations of products, technology and corporate systems by themselves, and joint innovation with wholly foreign-owned wine affiliates based on existing foreign knowledge and experience (Figure 5.2-2).

The three phases of leverage process have particular characteristics. In the *Application* phase, local Chinese firms directly utilise foreign resources without any changes. In the *Adaptation* phase, local Chinese firms utilise foreign resources with moderate but not fundamental adjustments and changes. Local Chinese firms either adjust themselves so as to accommodate foreign resources and capabilities, or change foreign resources and capabilities slightly to adapt them to local conditions. The first two phases unavoidably produce an impression of negative adaptation. By contrast, in the phase of *Amelioration*, local Chinese firms seem to move to another stage where they improve foreign resources fundamentally and significantly to fit local

circumstances more appropriately. Thus, *Amelioration* differentiates from *Application* and *Adaptation* by showing a positive attribute.

As can be seen, “leverage” is not simply an action but a process that can evolve from the *Application* to *Adaptation*, then *Amelioration* of resources. Local Chinese firms take different measures during the process of leverage to best use and learn from resources from their foreign business partners, according to the demands of practical realities. Further, the leverage process shows that firms in the Chinese wine industry do not just learn from foreign affiliates, but also further develop foreign resources, capabilities and even O-specific advantages based on the learning, by adapting it to local and firm conditions. Therefore, this study extends the LLL framework by emphasising that the “leverage” process encompasses “development”, not just “acquisition” of resources.

The phases of *Application* and *Adaptation* are seen to be more prevalent than the phase of *Amelioration* during the leverage process. As the current Chinese wine industry is still at an emerging stage, most local firms need to learn from developed foreign wine companies in terms of wine business-related concepts/philosophies, technologies, techniques and skills, governance and management expertise, as well as marketing and sales experience. That is why the phases of *Application* and *Adaptation* are more important and frequently observed than *Amelioration* in the leverage process (see Figure 5.2-1 and Figure 5.2-2). It should be noted that in the specific context of the Chinese wine industry, *Adaptation* is particularly vital. China’s terroir as one L-specific advantage is unique and irreplaceable. Developed technologies, techniques and experiences that might be well applied in foreign wine industries are not necessarily fully suitable for China’s local circumstances. It requires wine professionals to bear in mind that, instead of purely copying so-called foreign successful theories and practices, they need to adapt them to practical realities when considering how to make foreign resources and capabilities suitable to local production and to avoid disastrous and unnecessary losses.

6.3.2.2 The richness of the “Leverage” concept through a comparison with literature

This study adds to the understanding of the process whereby IFDI contributes to the augmentation of the O-specific advantages, resources and capabilities of emerging market firms in the home country, particularly by opening up the “Leverage” concept. To recap, the existing literature on resource and capability transfer from foreign affiliates to domestic firms in emerging markets via inter-firm direct linkages (see section 2.7) examined different types of leverage. These include “sharing and acquisition” (Hult, 1998; Morgan & Hunt, 1994; Scott-Kennel, 2004a; Scott-Kennel & Saittakari, 2020; Scott-Kennel & Von Batenburg, 2012; Si & Bruton, 1999; Tey & Idris, 2012), “adoption” (Chen, 1994; Håkansson & Johanson, 1988; Fleury et al., 1994; Halbach, 1989; Holmlund & Kock, 1995; Wong, 1991), “application” (Halbach, 1989; Liang, 2017; PA Cambridge Economic Consultants, 1995; Tan, 1990; Wong, 1992;), “adaptation” (Forsgren et al., 2005), “innovation” (Idris & Tey, 2011; Tey & Idris, 2012), as well as “joint development” (Bell & Marin, 2004; Chen & Chen, 1998; Chen et al., 2004; Enright, 2000; Giroud, 2007; Håkansson & Johanson, 1993; Ivarsson, 2002; Scott-Kennel, 2004b; Scott-Kennel & Enderwick, 2004).

To deepen the understanding of the three phases of the leverage process, by analysing primary and secondary data, this study refines three theoretical constructs, namely *Application*, *Adaptation* and *Amelioration*, according to the degree of changes made to the foreign resources and capabilities that were originally acquired. These theoretical constructs are similar to the leverage types found in existing literature but also have a number of broad and distinctive differences. The understanding of the leverage process draws on and makes a significant shift from previous studies on inter-firm resource transfer.

To draw parallels and contrasts between the existing literature and this study, first, while the existing literature mentioned above focusses on individual leverage types separately, this study looks specifically at the process of leverage as a whole by integrating all the elements, i.e., different types of leverage, and pays more attention

to the interaction between each phase (i.e., theoretical construct) of the leverage process. Second, while the existing literature mentioned above tends to concentrate on acquisition, this study argues that “Leverage” is more than just the “acquisition” of resources. This study offers a richer view of the leverage process of O-specific advantages, resources and capabilities of emerging market firms in the home country through the consideration of *Application*, *Adaptation* and *Amelioration*. This shows that there are escalating measures taken by local Chinese firms to manage acquired foreign resources and capabilities. In other words, after foreign resources and capabilities are acquired, unless they are adopted without any changes, they might experience adjustment (i.e., *Adaptation*), or development/innovation (i.e., *Amelioration*) until the *Application* of these foreign resources and capabilities is in keeping with the realities of the local environment.

Third, another distinctive difference from the existing literature mentioned above is that this study examines the upgrading process in much more detail than that of prior studies. The findings of this study show that there are various interactions between local Chinese firms and their foreign business counterparts during the leverage process of foreign resources and capabilities via inter-firm equity- (JVs) and non-equity-based (other collaborative partnerships) linkages. Therefore, these inter-firm Sino-foreign interactions and equity- and non-equity-based linkages are keys to facilitate the opening of the “Black Box” (i.e., the “leverage process”).

6.3.2.3 The richness of “Leverage” in the LLL framework through the interaction of key constructs

This thesis argues that there was a gap in the LLL framework as it does not offer insight into the processes and outcomes of “Leverage” beyond “acquisition”. This gap gives the thesis an opportunity to really explore the idea of “Leverage” in much more detail and explains the process whereby key theoretical constructs interact. These findings and the associated argument make an important contribution to the application of the LLL framework.

In the cases of equity-based linkage and non-equity-based linkage, “Leverage” does not always simply lead to “accept and apply.” In some instances, resources from foreign connections do not fit well with the conditions of local firms and as such, the latter must make essential changes to foreign resources, rendering the process of leverage more sophisticated. While this kind of accommodation is recognised in the literature of technology transfer (Scott-Kennel, 2004a; Scott-Kennel & Saittakari, 2020) and works considering adaptation (Forsgren et al., 2005), the uniqueness of this thesis is in examining the leverage process with a holistic view through the enrichment of “Leverage” in the LLL framework. Further, during this process, resources acquired from foreign affiliates and the capabilities of local firms get “developed”, which equips local firms with enhanced capabilities to undertake the next round of linkage and leverage activities - “Learning”. Therefore, it is meaningful and valuable, through this study, to research: how leverage happens; or during the leverage process, how theoretical constructs of leverage interact to set up the next stage.

The interactions of theoretical constructs are illustrated in Figure 6.1. As the “Black Box” opens, the richness of “Leverage” is revealed. The three main phases in the leverage process differentiate the actions of local firms after they obtain access to new resources of foreign affiliates: a) *Application* – this phase is about directly utilising the O-specific advantages and resources of foreign affiliates without change; b) *Adaptation* – this phase involves incrementally changing the O-specific advantages and resources of foreign affiliates and/or adjusting the existing O-specific advantages and resources of local firms so as to better utilise the foreign O-specific advantages and resources; and c) *Amelioration* – this phase refers to improving and innovating the original O-specific advantages and resources of foreign affiliates to remodel them to better fit the needs of local firms. When the phases of *Adaptation* and *Amelioration* fail to make the existing foreign O-specific advantages and resources applicable to the current situation, local firms need to seek other linkages with foreign affiliates for new resources.

This understanding of “Leverage” draws on and makes a significant shift from Mathews’ LLL framework. As compared with Mathews’ (2017) definition that “Leverage” means “securing” and “gaining access to” resources, this study takes a step forward to probe the process from resource attainment until O_H -specific advantage augmentation. It is found that “Leverage” is a dynamic process whereby receiver firms apply and ameliorate resources, as well as adjust the firms’ circumstances, to apply new resources, or adjust new resources to adapt to local realities. Through the leverage process, receiver firms apply, adapt to, or ameliorate foreign resources and eventually enhance their competences. As a result, with more nuanced attention to the details of process, this study is able to offer a richer understanding of the concept of “Leverage” within the LLL framework.

6.3.3 A process model - IFDI plays a catalyst role in developing emerging market industries

The final contribution of this thesis is to provide a process model (Figure 6.1) to illustrate how IFDI impacts the upgrading of emerging market firms and their industry in the home country. There are three features of the model.

First, Figure 6.1 integrates the OLI paradigm and the LLL framework, and demonstrates inter-firm linkages and the transfer of foreign O-specific advantages, resources and capabilities to local firms. The OLI framework explicates that foreign affiliates internalise (full- I_F) proprietary O-specific advantages (O_F) and other resources and capabilities from overseas parent companies. While they operate business in the host country (the home country from local firm’s perspective), the O-specific advantages (O_F) and other resources and capabilities purposefully transfer (quasi- I_F) from foreign affiliates to local firms as business partners via direct inter-firm linkages. This is aligned with the strategy proposed by the LLL framework, namely through equity- (i.e., JVs) and non-equity-based (i.e., other collaborative partnerships) linkages, “Leverage” reveals a strategic ambition, and “Learning” sustains the dynamics for the augmentation of O-specific advantages (O_H), resources and capabilities.

Second, the model elaborates the sophisticated process of leverage by empirically illustrating multiple inter-firm linkages at a firm level. It includes equity-based linkages, viz. JVs, and non-equity-based linkages, viz. other collaborative partnerships. There are three phases in the leverage process of O-specific advantages, resources and capabilities from foreign affiliates to local firms. In phase a) *Application*, when Sino-foreign wine JVs and wholly foreign-owned firms share knowledge, experience, techniques, technology and resources with local firms, the latter apply them directly. In phase b) *Adaptation*, if foreign resources and capabilities are not completely suitable for local firms, local firms and foreign business partner firms need to work together to re-shape it by integrating both sides' knowledge. However, in phase c) *Amelioration*, as a result of the impact of IFDI, many local firms improve their thinking about aspects such as management, product quality and consistency, aesthetics, work attitudes, as well as CSR, to just name a few. This might facilitate local firm's architectural innovations^{xi} based on proprietary foreign resources and capabilities, for instance, the establishment of management systems.

Third, the model explores the role of IFDI in industrial development in emerging markets by examining the impact of IFDI on the upgrading of emerging market firms in the home country. Studies by Narula and Dunning (2000; 2010) show that IFDI facilitates the upgrading of local firms, which in turn, underlies industrial development. Thus, there is a dynamic relationship between industrial development and IFDI. By investigating 48 firms and organisations in the Chinese wine industry, and analysing a set of aggregated firm-level data, this study has explained that IFDI has played a catalyst role in developing the Chinese wine industry from seven aspects such as a) expanding industrial scale, b) introducing the concepts/philosophies of the winery business, c) creating a climate for Sino-foreign communication on wine techniques, d) engaging in wine education, e) advertising and promoting local wine regions, and f) boosting industrial confidence.

6.4 Policy and managerial implications

This empirical study explored the impact of IFDI on the Chinese wine industry, and found policy and managerial implications relating to: a) the catalyst role of IFDI for industrial development, and b) the linkage-leverage-learning strategy for emerging market firms to acquire foreign resources in the home country.

6.4.1 Public policies with IFDI's catalyst role for industrial development

Currently, there are major four types of foreign investors investing in the Chinese wine industry. The first type consists of internationally famous wine and alcohol producers, for example, Pernod Ricard, Moët Hennessy Diageo, French Groupe Castel, ILLVA Saronno Holding S.p.A, Domaines Barons de Rothschild (Lafite), Remy Martin and Allied Domecq, just to name a few. The second type includes investors from international financial and capital sectors such as the World Bank. The third type of investor is foreign family winery such as Dorothy Wine. The fourth type of investor comprises overseas Chinese investors from Hong Kong, Macao and Taiwan. Overall, IFDI has played a catalyst role in the development of the Chinese wine industry through Sino-foreign wine JVs and wholly foreign-owned wine affiliates establishing business linkages with local Chinese firms including wine-producing firms as well as upstream and downstream firms in the local wine industry supply chain.

Maximising learning opportunities associated with IFDI involvement is important because the Chinese wine industry is just emerging and at a stage of learning and imitating. The development of the wine industries in the “Old World” and “New World”^{xii} wine-producing countries is ahead of the Chinese wine industry; well-developed wine-producing companies in these regions have expertise in nearly every aspect of the wine-related business. Thus, one of the shortcuts for the Chinese wine industry to catch up with its international counterparts and meet the international standards could involve introducing foreign well-known wine producers into China.

According to interviewees, compared to capital, the most instrumental assets that foreign wine MNEs bring in to facilitate the development of the Chinese wine industry are concepts and techniques. These are related to aspects such as wine business operation, winemaking and vineyard management. First, the wine business involves a lengthy production time, a large amount of investment and no expectation of a rapid payback. Wine-producing firms with a belief in making fine wine start with understanding terroir and cultivating wine-grapes. They pay great attention to strict and standardised vineyard management, as well as a rigorous attitude and spirit of limiting grape quantity for high quality. Vines should be at least three years old before their grape berries are used to make wine. DBR Wine Estates (Shandong) Company Limited - the Chinese branch of the world's top wine-producer Domaines Barons de Rothschild (Lafite) - launched its first wine in the 10th year after it started to plant wine grapes in China (The New York Times, 2019). This example shows that there was a long incubation period before grapes were ready for winemaking and consequently, a large amount of time, labour, effort and money were invested by the company; and that the company had the spirit of pursuing high quality wine. Second, world-class winemaking companies stress the technical details of winemaking and winegrowing. When answering questions about the most important foreign lesson, all interviewees mentioned technical details and appreciated foreign affiliates' professionalism. Foreign wine-producing MNEs bring in advanced winemaking concepts and techniques which could help China's wine firms improve their competences in a short time.

However, the catalyst role of IFDI is not only about the transfer of expertise and know-how through foreign investment. It is also about providing the "foundation" for producing wines that are distinctive to China and compatible with Chinese consumers' tastes and food preferences. The "foundation" includes the awareness and ability to fully understand China's terroir, wine grapes, food culture and consumers' needs and preferences toward wines that are established by mastering expertise such as foreign advanced wine-related knowledge, technology, techniques and experience. By transferring foreign resources and capabilities, IFDI prompts China's wine firms

and professionals to learn and realise three essential points. First, *terroir* is where the personality of a wine lies, and wine grapes reflect *terroir*. Winemaking techniques are used to present the personality of the wine. Second, China has a different food culture than that of Western countries; and only the best pairing of food and wine can demonstrate the wine's best advantage. Third, most Chinese consumers might have different needs and preferences when choosing wines due to limited knowledge and awareness about wine products. It is in the *Amelioration* phase of the leverage process whereby foreign O-specific advantages, resources and capabilities are transferred to local firms. Local Chinese wine firms in the Chinese wine industry can start to develop unique Chinese wines that can play an important role in the world market. Through the leverage process involved in IFDI, all foreign wine affiliates that take root in the Chinese wine industry are assisting the birth of "Chinese wine" in a real sense. They are exploring how to make wines in China and at the same time, spreading wine-related technical influence throughout the Chinese wine industry through employee training and industry spillovers, as well as educating China's wine consumers with general wine knowledge and culture. In different phases of the leverage process, the ground is established for the evolution of an authentic Chinese wine industry.

Therefore, this study has an implication for China's policies that seek to achieve the development of the Chinese wine industry by drawing on the catalyst role of IFDI. When IFDI into the Chinese wine industry reaches a certain level, China's wine bureau will make or adjust policies, laws and regulations to provide better management and support. This will eventually lead to the restructuring of the Chinese wine industry.

6.4.2 The LLL strategy for emerging market firms to acquire foreign resources in the home country

The managerial implication of this study is that the linkage-leverage-learning concept can be used as a strategy for emerging market firms to acquire foreign resources in the home country. The applicable circumstances could be first, emerging economies

have L-specific advantages that attract IFDI. Second, domestic firms do not have a comprehensive ability to invest in markets overseas to acquire foreign resources for upgrading; however, these domestic firms, by relying on their home advantages, make business linkages with foreign affiliates through which they gain access to foreign resources.

Other studies either look at JVs, wholly foreign-owned firms, suppliers, or competitors, but not many examine all of them. One distinctive feature of this study is that it considers a range of firms and multiple linkages with foreign affiliates in the Chinese wine industry. The application of the LLL framework to the Chinese wine industry enables an enhanced understanding of the augmentation of O-specific advantages, resources and capabilities because of interactions between foreign and Chinese firms.

In terms of an approach to acquiring foreign resources in the home country, this is a context-specific study. First, the home country has vital resources for the development of an industry and so local firms do not need to expand overseas for key resource-seeking. Next, IFDI brings in foreign O-specific advantages, resources and capabilities when foreign investors come to exploit the vital resources and internalise the market in the host country (the home country from the perspective of local firms). Then, local firms leverage resources and capabilities that they lack via linkages with foreign affiliates. After that, through repeating linkage and leverage activities, local firms access and acquire other foreign resources. Thus, the linkage-leverage-learning concept is a strategy for local firms to acquire foreign O-specific advantages, resources and capabilities at home.

With respect to the content of foreign resources, apart from capital, technology and equipment, foreign wine affiliates also introduce know-how, expertise and concepts/philosophies regarding the winery business which would not be available to local Chinese firms without IFDI. Thus, local firms in the Chinese wine industry acquire

important foreign O-specific advantages, resources and capabilities via multi-linkages with IFDI.

6.5 Limitations

The limitations of this study need to be acknowledged. The first limitation is that this study was limited to investigating the impact of IFDI on emerging market firms in the home country with unique, competitive and irreplaceable L-specific advantages that attract foreign investment. It was the terroir and market potential of China that enticed international investors to bring in capital and advanced resources and capabilities to engage in the development of the Chinese wine industry. Thus, the application of the linkage-leverage-learning notion to the transfer of foreign resources and capabilities to emerging market firms in the home country was ascertained through a process of comprehensive abductive reasoning.

The other possible limitation could be that not all firms that were directly relevant to the study could be interviewed. For example, as it was mentioned in the chapter on research methodology and methods, some local Chinese wineries with Sino-foreign collaborations did not have too many business connections with Sino-foreign wine JVs or wholly foreign-owned wine affiliates. Although they provided information reflecting industry spillover effects, namely non-equity-based inter-firm indirect linkages, these effects are not the focus of the study. Hence, the information from these interviewees can only be used as background information for this study.

6.6 Future research orientations

There are three possible research topics suggested by this study. Firstly, the study explored the process of local firms leveraging foreign resources and capabilities, and enriched the meanings of “Leverage” within the LLL framework by identifying three significant theoretical constructs. These constructs reflect the processes whereby local firms deal with foreign resources and capabilities accessed via equity- and

non-equity-based inter-firm linkages, from direct application without change, to adjustment and even development. Thus, further research into the leverage process could be undertaken to evaluate the extent to which resources and capabilities gained from foreign affiliates are changed and developed to better fit local needs. This could be done using a scale from incremental and innovative through to radical, to measure the extent of the development.

Secondly, in the wine industry, there has been a coexistence of cooperation and competition between wine firms (Dana, Granata, Lasch & Carnaby, 2013), and as such it has become increasingly important to manage inter-firm competition (Granata, Lasch, Le Roy & Dana, 2017). Thus, with an awareness of IFDI's catalyst role in developing the Chinese wine industry, a second possible future research topic could focus on how local Chinese wine firms pursue their success via possible competition with foreign wine affiliates.

Lastly, the interview data of this thesis showed that the wine bureaux of China's wine regions organised local Chinese wine firms and foreign wine affiliates to attend international wine expos every year. By holding wine tastings around the world including Hong Kong, the US, France, Germany and United Nations headquarter, Chinese wine regions were widely promoted. This example demonstrated some similarity with the study by Felzensztein, Deans and Dana (2019) which found that trade associations in small countries played a positive role in promoting and branding local clustered small wine firms in foreign markets. Notably, foreign wine affiliates benefited from the overarching promotion events by local wine bureaux in China while they contributed to the development of local wine regions. Hence, a third possible research topic could be investigating how local governments in wine regions in China draw on IFDI to develop local wine industries.

6.7 Concluding remarks

On the basis of an investigation of 48 firms and other institutions in the Chinese wine industry and an analysis of aggregated firm-level data (including both primary and secondary data), this study empirically investigated how industrial “catch-up” has been achieved in an emerging economy by exploring the application of Mathews’ LLL framework (2006a; 2017) in a home country-context and combining it with Dunning’s OLI paradigm (2000; 2001).

By developing the model of IFDI’s impact on the upgrading of emerging market firms and their industry in the home country (Figure 6.1), the study contributes to the understanding of the application of the LLL framework. The previous literature suggests the LLL framework as an accelerated internationalisation strategy for emerging market firms pursuing foreign advanced resources by going global (Mathews, 2006a; 2017), while this study suggests that the concept of the LLL framework can be employed as a strategy by which emerging market firms upgrade their competences through leveraging foreign O-specific advantages, resources and capabilities in the home country. Also, the research opened what was previously the “Black Box” of “Leverage” within the LLL framework by enriching the meaning of the “Leverage” through identifying three significant theoretical constructs.

The model of IFDI’s impact on the upgrading of emerging market firms and their industry in the home country illustrates a holistic picture in which IFDI contributes to the development of the Chinese wine industry. The holistic picture starts from the entry of IFDI into the Chinese wine industry and finishes when the augmentation of the O-specific advantages, resources and capabilities of local Chinese firms is achieved. It includes processes whereby interactions between foreign and local Chinese firms and the consequent transfer of foreign O-specific advantages, resources and capabilities occur. The model illustrates six stages: a) the internalisation of O_F-specific advantages, resources and capabilities from overseas parent companies to foreign affiliates in the host country, b) equity- and non-equity-based inter-firm

linkages, along with the concomitant transfer or diffusion of foreign O_F -specific advantages, resources and capabilities to local firms, c) resource “Leverage” (i.e., *Application, Adaptation and Amelioration*), d) “Learning”, namely the repeated linkage and leverage activities, e) the augmentation of the O_H -specific advantages, resources and capabilities of local firms, as well as f) industrial upgrading.

Local firms leverage advanced foreign O-specific advantages, resources and capabilities by making business linkages with foreign affiliates in the home country rather than going abroad. By conducting “Learning”, namely repeated linkage and leverage activities, local firms upgrade their O-specific advantages, resources and capabilities. This is how the LLL framework can be operationalised in the home country. However, it only operates when the three necessary conditions are in place. First, the home country has L-specific advantages that are essential for the development of both local and foreign investors. Second, the L-specific advantages attract IFDI. Third, local firms do not have the ability to invest overseas. Foreign affiliates internalise O_F -specific advantages from their overseas parent companies. They transfer these foreign resources and capabilities to local firms as value-adding activities are organised. This is how the OLI paradigm creates circumstances for local firms to apply the linkage-leverage-learning strategy.

Firms in the Chinese wine industry are applying the linkage-leverage-learning strategy, by drawing on the existing L-specific advantages of the Chinese wine industry such as China-specific terroir and market, to learn from IFDI by foreign wine MNEs and achieve upgrading in the home country. IFDI facilitates Sino-foreign inter-firm collaborative partnerships, which results in the transfer of foreign O-specific advantages, resources and capabilities to the Chinese wine industry. This, ultimately, helps the Chinese wine industry catch up with the more developed wine industries in other countries.

Throughout the past forty years, IFDI has played a catalyst role in the development of the Chinese wine industry in seven ways including a) expanding industrial scale,

b) introducing concepts and philosophies of the winery business, c) closing the technology gap between the industry and its international counterparts, d) creating a climate for Sino-foreign communication regarding wine techniques, e) engaging in wine education, f) advertising and promoting local wine regions, and g) boosting industrial confidence. Because IFDI facilitates the upgrading of local firms, which in turn, underlies industrial development (Narula & Dunning, 2000; 2010), there is a dynamic relationship between industrial development and IFDI. This study explored the catalyst role of IFDI in industrial development in emerging markets by investigating the impact of IFDI on the upgrading of emerging market firms in the home country.

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Appendices

Appendix 4.1 Types of data to be collected & methods

<p><i>RQ1. What O-advantages, resources and capabilities do foreign MNEs contribute through linkages with domestic firms in the Chinese wine industry on entry?</i></p> <p><i>RQ3. What O-specific advantages, resources and capabilities contributed by foreign MNEs through linkages with domestic firms in the Chinese wine industry are developed over time?</i></p>		
Types of linkages	Method	The type of data collection
What O-advantages, resources and capabilities do foreign MNEs and domestic investor firms contribute to Sino-foreign JVs in the Chinese wine industry?	In-depth personal interview	(1) Physical assets (i.e., production and service technology associated with economies of scale and capital intensity)
		(2) Intangible assets (i.e., managerial practices, marketing systems, distribution systems, employment practices, human skills, training systems, and ability to exploit them)
		(3) O-advantages from MNE parent company (i.e., multinationality, common governance, access to markets and resources, product differentiation, professional staff, capital and international experience)
		(4) O-advantages from Chinese JV partner firm (i.e., experience about local market, sales channels and government network)
What resources and capabilities do Sino-foreign wine JVs and wholly foreign-owned wine affiliates contribute to domestic firms in the Chinese wine industry?	In-depth personal interview	(1) O-specific advantages augmentation of local Chinese suppliers via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates
		(2) O-specific advantages augmentation of local Chinese distributors via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates
		(3) O-specific advantages augmentation of local Chinese alliance partners via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates

(Appendix 4.1 continued)

<i>RQ2. How do foreign MNEs contribute to the augmentation of the O-specific advantage, resources and capabilities of domestic firms in the Chinese wine industry?</i>	
Method	The type of data collection
In-depth personal interview	Transfer process via inter-firm direct linkages where
	(1) Physical and intangible assets of foreign JV investors provided to Chinese JV partner firms (i.e., technology, techniques, management skill, organisational knowledge, entrepreneurial skills, access to markets, market structure, culture, and expertise of strategic arrangement in international management)
	(2) Support/resource provided to domestic suppliers/contractors/subcontractors (i.e., information, technology, and advanced production process, new corps, quality standards, land option, harvest scheduling, as well as financial help about seedlings, equipment, labour and irrigation)
	(3) After service/resource provided to domestic corporate buyers/outlets (i.e., resource and knowledge regarding product usage, marketing skill, and organisational expertise)
	(4) Service/resource provided to domestic alliance partners (i.e., resources such as brands, business procedures, production and processing technology, equipment, and managerial training)
	(5) Import (intra- or inter-firm) goods and services from overseas, or purchase locally
	(6) Issues regarding conflicts between technology transfer and patents

<i>RQ4. What is the impact of IFDI on the development of the Chinese wine industry?</i>	
Method	The type of data collection
In-depth personal interview	(1) Contributions of foreign experts from IJVs / WFOSs to the development of the Chinese wine industry
	(2) Influence of IFDI on the Chinese wine industry
Documentation review	IFDI activities and their influences in the Chinese wine industry

Appendix 4.2 List of participating organisations and interviewees, interview duration and face-to-face/online interviews

Interviewee Institute type	Company/Institute	Position	Years of vine & wine professional experience in China by 2017	Interview duration	face-to-face/ online interview
JV wine company	Company 1	Executive director, general manager	28	1:41:58	face-to-face
	Company 2	Alliance partner, chief winemaker	12	2:01:03	face-to-face
	Company 3	Vice general manager, chief winemaker	23	2:20:22	face-to-face
	Company 4	Winemaker	9	2:36:57	online
Wholly foreign-owned wine company	Company 1	General manager	5	2:52:36	face-to-face
	Company 2	Estate Manager	10	2:13:46	face-to-face
	Company 3	Director of Sales & Marketing	4	2:09:51	online
Local wine company with Sino-foreign collaborations	Company 1	Production & Technology Manager, winemaker	23	2:20:22	face-to-face
	Company 2	General manager	20	2:39:56	face-to-face
	Company 3	Executive director	8	1:42:40	face-to-face
	Company 4	Owner	7	1:41:41	face-to-face
	Company 5	Owner, winemaker	7	1:50:06	face-to-face
	Company 6	Owner	6	1:16:09	face-to-face
	Company 7	Owner	6	1:38:10	face-to-face
	Company 8	Owner, winemaker	4	2:43:34	face-to-face
	Company 9	Owner, winemaker	10	30:00	face-to-face
Supplier	Oenological machinery & oak barrel distributor	Regional manager	6	1:04:51	face-to-face
	Oenological machinery & oak barrel distributor	General manager	10	2:28:38	face-to-face
	Oenological machinery distributor	Vice general manager	18	1:00:24	face-to-face
	Oak barrel distributor	Owner	19	2:44:22	online
	Oak barrel manufacturer	Regional manager	15	29:34	online
	Oak barrel distributor	Manager	10	33:36	face-to-face
	Oenological excipients manufacturer	China technology director	10	1:46:40	online
	Oenological excipients distributor 1	Deputy general manager	10	1:04:47	face-to-face
	Oenological excipients distributor 2	Regional manager	7	1:47:30	online
	Oenological excipients distributor 3	Owner	13	1:29:30	face-to-face
	Wine label design consultancy	Creative director	21	1:54:06	face-to-face
	Wine label printing manufacturer	Owner	8	1:28:40	face-to-face
	Packaging design & manufacturer	Marketing director	5	1:30:16	face-to-face
		Account director	8		
	Wine glass manufacturer	Business operations director	19	1:54:25	face-to-face
		Chief of the QA Department	19		
	Distributor of wine glass, cork, rubber cap, gift box etc.	Owner	15	1:18:37	face-to-face
Distributor	Cork manufacturer	General manager	12	1:48:29	face-to-face
	Grape plantation	Wineyard technician	6	28:05	face-to-face
	Distributor 1	Regional director	10	1:10:57	online
	Distributor 2	Marketing director	11	42:48	online
Other wine institute	Distributor 3	Executive director	10	58:24	face-to-face
	Institute 1	Participant 1	25	1:19:55	face-to-face
	Institute 2	Participant 2	12	1:49:49	face-to-face
	Institute 2	Participant 3	10	1:42:15	face-to-face
	Institute 3	Participant 4	8	1:45:42	face-to-face
	Institute 3	Participant 5	25	3:04:26	face-to-face
	Institute 4	Participant 6	18	1:39:24	face-to-face
	Institute 5	Participant 7	10	2:01:41	face-to-face
	Institute 6	Participant 8	20	1:03:33	online
	Institute 7	Participant 9	8	1:40:25	face-to-face
	Wine-making consultancy 1	Owner, foreign wine-making consultant	6.5	1:47:59	face-to-face
	Wine-making consultancy 2	Owner, wine-making consultant	6	1:49:11	face-to-face
	Wine-making consultancy 2	Foreign wine-making consultant	6 weeks	2:06:59	face-to-face

Appendix 4.3 Interview question guide

Interview guide

Part 1. Interviewee's professional background information:

1. Interviewee's name
2. Interviewee's organisation
3. When did the organisation establish?
4. Corporate forms
5. Interviewee's position
6. How long have you been working in the Chinese wine industry?
7. How long have you been working for this organisation?
8. How long have you been working in this position?

(Appendix 4.3 continued)

Part 2. FDI' s impact on firms in the Chinese wine industry and on the Chinese wine industry

Part 2. FDI' s impact on firms in the Chinese wine industry and on the Chinese wine industry
 (* 1. Items with "✓" have the same questions as the item at its left column.)

Conceptual construct		Thematic question prompts					
		Category A Investors, top managers and interviewee: chief winemakers from Sino-foreign wine JV's.	Category B Top managers and chief interviewee: winemakers from wholly foreign-owned wine firms.	Category C Investors, top managers and chief winemakers from local Chinese wine firms with Sino-foreign collaborations;	Category D Owners and top managers of interviewee: upstream firms in the Chinese wine industry supply chain. (e.g. Vineyard/equipment supplier/cork supplier/bottle supplier/label supplier/box supplier/barrel supplier/winemaking consulting service)	Category E Owners and top managers of interviewee: downstream firms in the Chinese wine industry supply chain. (e.g. Wine distributors/wine education agencies)	Category F a) China's local government officials; b) Experts from China's wine associations; c) Experts from wine research institutes and universities.
1 O-specific advantages	1-1 O-specific advantages (physical & intangible assets) from MNE parent company	a) What has the foreign investor contributed to the JV, in terms of physical and intangible assets?	a) What has the foreign investor contributed to the company, in terms of physical and intangible assets?	a) What has the foreign partner firm contributed to the collaboration, in terms of physical and intangible assets?	-	-	a) What benefits can foreign investors bring to Sino-foreign wine JV's or Sino-foreign collaborations in the local wine industry? b) Have any of these benefits eventuated? c) What benefits that the local government hoped for have not eventuated?
	1-2 O-specific advantages (physical & intangible assets) from Chinese JV partner firm	a) What has the Chinese investor contributed to the JV, in terms of physical and intangible assets?	a) What has the Chinese executives contributed to the company, in terms of physical and intangible assets?	a) What has the Chinese partner firm contributed to the collaboration, in terms of physical and intangible assets?	-	-	a) What has the Chinese investors contributed to wine Sino-foreign wine JV's in terms of physical and intangible assets?
	Prompts: a) Physical assets: capital, production and service technology associated with economies of scale and capital intensity; b) Intangible assets: managerial practices, marketing systems, distribution systems, employment practices, human skills, training systems, and ability to exploit them; c) O-specific advantages from foreign business partner firm: capital, multinationality, common governance, access to markets and resources, product differentiation, professional staff, capital and international experience; d) O-specific advantages from Chinese business partner firm: capital, experience about local market, sales channels and government network.						

(Appendix 4.3 continued)

2 Equity-based inter-firm linkage & leverage	2-1 Entrepreneurial skills	a) Can you describe how Chinese and foreign investors worked together to establish this JV?	a) Can you describe how foreign parent company and Chinese professional executives worked together to establish this company?	a) Can you describe how Chinese and foreign business partners worked together to start collaboration?	-	-	-
		b) Can you describe how Chinese and foreign investors worked together to organise and manage the business?	b) Can you describe how foreign parent company and Chinese professional executives worked together to organise and manage the business?	b) Can you describe how Chinese and foreign business partners worked together to organise and manage the business?	-	-	-
	2-2 Organisational knowledge	a) How does the JV improve staff skills and capabilities? (e.g. staff business communications & training)	a) How does the company improve staff skills and capabilities? (e.g. staff business communications & training)	a) How does the company improve staff skills and capabilities? (e.g. collaborations, business communications & training with foreign partner firms)	-	-	-
		b) Does the Chinese or foreign company take more of a lead or the JV?	b) Does the Chinese branch or foreign parent company take more of a lead with this?	-	-	-	-
	2-3 Culture	a) How does the JV manage cultural differences?	a) How does the company manage cultural differences?	a) How does the company manage cultural differences with its foreign business partners?	-	-	-
		e.g. Chinese investor vs. foreign investor, JV vs. local government, JV vs. other segments in the local supply chain.	e.g. Foreign parent company vs. Chinese profession executives, Chinese branch vs. local government, Chinese branch vs. other segments in the local supply chain.	-	-	-	-
	2-4 Access to markets	The next few questions are about collaboration between JV partners.	The next few questions are about collaboration between the foreign investor and the Chinese professional executives.	The next few questions are about collaboration between the Sino-foreign business partners.	-	-	-
		a) How do the Chinese and foreign investors of the JV collaborate to develop the market in China and/or overseas?	a) How do the foreign investor and the Chinese professional executives collaborate to develop market in China and/or overseas?	a) How does the Sino-foreign collaboration help the company develop market in China and/or overseas?	-	-	-
		b) Are the wines from the winery sold domestically or overseas?	b) <input checked="" type="checkbox"/>	b) <input checked="" type="checkbox"/>	-	-	-
		c) Are the wines from the winery sold in bottle or bulk?	c) <input checked="" type="checkbox"/>	c) <input checked="" type="checkbox"/>	-	-	-
		d) Does the winery use cork or screw top for wines?	d) <input checked="" type="checkbox"/>	d) <input checked="" type="checkbox"/>	-	-	-
		e) What information is legally required in China for wine labels?	e) <input checked="" type="checkbox"/>	e) <input checked="" type="checkbox"/>	-	-	-
		f) Does the winery use any additives and preservatives for wines?	f) <input checked="" type="checkbox"/>	f) <input checked="" type="checkbox"/>	-	-	-
	2-5 Market structure	a) What market structure do you think the Chinese wine market belongs to: oligopoly, monopoly, perfect competition, or monopsony?	a) <input checked="" type="checkbox"/>	a) <input checked="" type="checkbox"/>	-	-	-
		b) How do the Chinese and foreign investors collaborate to help the JV adapt to market structure in China (overseas)?	b) How do the foreign investor and the Chinese professional executives collaborate to help the company adapt to market structure in China (overseas)?	b) How does the Sino-foreign collaboration help the company adapt to market structure in China (overseas)?	-	-	-

(Appendix 4.3 continued)

3	Non-equity-based inter-firm linkage & leverage	2-6 Institutional environment	a) How do the Chinese and foreign investors collaborate to help the JV adapt to government policies and industry policies in China (overseas)?	a) How do the foreign investors and the Chinese professional executives collaborate to help the company adapt to government policies and industry policies in China (overseas)?	a) How does the Sino-foreign collaboration help the company adapt to government policies and industry policies in China (overseas)?	-	-	-
		2-7 Issues regarding conflicts between technology transfer and patents	a) During the process of co-investing and co-operating the JV, how do Chinese and foreign investors collaborate to deal with issues regarding conflicts between technology transfer and patents?	a) How do foreign parent company and the Chinese branch deal with issues regarding conflicts between technology transfer and patents?	a) During the process of collaboration, how do Chinese and foreign business partners collaborate to deal with issues regarding conflicts between technology transfer and patents?	-	-	-
	3-1 Direct linkages with upstream firms in the local (Chinese) supplier chain		I'm interested in your relationships with downstream suppliers and upstream customers. In particular I'd like to know about the resources, assistance that you provide them. Let us focus on your top 2-3 suppliers (or top 2-3 customers or top 2-3 alliance partner).	√	√		√	-
			a) What resources and/or assistance does the JV provide to its local (Chinese) suppliers/ contractors/ subcontractors? b) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.)? Prompt: Can you give me a specific example? c) Does the JV prefer to import (intra- or inter-firm) goods, equipment, and services from overseas, or procure them locally?	a) What resources and/or assistance does the company provide to its local (Chinese) suppliers/ contractors/ subcontractors? b) c) Does the company prefer to import (intra- or inter-firm) goods, equipment, and services from overseas, or procure them locally?	a) What resources and/or assistance does the company via Sino-foreign collaboration provide to the company's local (Chinese) suppliers/contractors/subcontractors? b) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.) via Sino-foreign collaboration? c) During the process of Sino-foreign collaboration, does the company prefer to import goods, equipment, and services from overseas, or procure them locally?	a) What kind of wineries does the company collaborate with, Chinese winery, Sino-foreign wine JVs, or wholly-owned foreign wine affiliates? b) What resources and/or assistance does the winery provide to the company? c) What is the impact of collaborating with a Chinese winery on the company? d) What is the impact of collaborating with a Sino-foreign wine JV on the company? e) What is the impact of collaborating with a wholly foreign-owned wine affiliate on the company? f) What are the differences between collaborations with the Chinese winery and the Sino-foreign wine JV/wholly foreign-owned wine affiliate?	-	- - - - - -

(Appendix 4.3 continued)

3-2	Direct linkage: with downstream firms in the local (Chinese) supplier chain	a) What after service and/or resources does the JV provide to its wine distributors and winery tourism & wine culture promotion agency?	a) What after service and/or resources does the company provide to its wine distributors and winery tourism & wine culture promotion agency?	a) What after service and/or resources does the company via Sino-foreign collaboration provide to its distributors and winery tourism & wine culture promotion agency?	-	a) What kind of wineries does the company collaborate with, Chinese wineries, Sino-foreign wine JV's, or wholly foreign-owned wine affiliates?	-
		b) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.)?	b)	b) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.) via Sino-foreign collaboration?	-	b) What after service and/or resources does the winery provide to the company?	-
		Prompt: Can you give me a specific example?	√	√	-		-
						c) What is the impact of collaborating with a Chinese winery on the company?	-
						d) What is the impact of collaborating with a Sino-foreign wine JV on the company?	-
						e) What is the impact of collaborating with a wholly foreign-owned wine affiliate on the company?	-
						f) What are the differences between collaborations with the Chinese winery and Sino-foreign wine JV/wholly foreign-owned wine affiliate?	-
						The following questions apply to wine distributors only.	-
						g) Are the wines distributed by your company sold domestically or overseas?	-

(Appendix 4.3 continued)

						h) Are the wines distributed by your company sold in bottle or bulk?	-
						i) Do the wines distributed by your company use cork or screw top?	-
						j) What information is legally required in China for wine labels?	-
						k) Do the wines distributed by your company use any additives and preservatives?	-
	3-3 Direct linkages with local (Chinese) alliance partners	a) Does the JV have a local (Chinese) alliance partner? (Or if the JV intends to look for a local alliance partner?) b) What resources and/or assistance does (will) the JV provide to its alliance partners? c) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.)? Prompt: Can you give me a specific example?	a) Does the company have a local (Chinese) alliance partner? (Or if the company intends to look for a local alliance partner?) b) What resources and/or assistance does (will) the company provide to its alliance partners? c) √ √	a) During the process of Sino-foreign collaboration, does the company have a local (Chinese) alliance partner? (Or if the company intends to look for a local alliance partner?) b) During the process of Sino-foreign collaboration, what resources and/or assistance does (will) the company provide to its alliance partners? c) Has your company engaged in mutual adaption, development or joint innovation of product, processes, services with your local Chinese partners (etc.) via Sino-foreign collaboration? √	- - - -	- - - -	- - - -
4 Domestic firms upgrading	4-1 Upgrading of O-specific advantages, resources and capabilities	a) What does (do) the Chinese JV partner(s) see as its (their) major developments since the Sino-foreign collaboration was formed?	-	a) What do you see as your major developments since the Sino-foreign collaboration was formed?	a) What do you see as your major developments since the Sino-foreign collaboration was formed?	a) What do you see as your major developments since the Sino-foreign collaboration was formed?	-
	Prompts: a) Products, innovations, staff, performance (profits) etc.; b) Foreign investor internalises local knowledge from the Chinese JV partner, while imposing foreign reporting mechanisms; c) Chinese investor learns expertise of strategic arrangement in international management, technology, management skill from the foreign JV partner.						
5 IFDI's impact on the local (Chinese) wine industry	5-1 IFDI's impact on the local (Chinese) wine industry	- a) What contribution do foreign experts make to the development of the local wine industry? - b) What influence has IFDI had on the local wine industry?	- a) √ - b) √	- a) √ - b) √	- - - -	- - - -	a) How many Sino-foreign wine JVs, wholly foreign-owned wine affiliates and foreign experts are there in the local wine industry? b) What contribution do foreign experts make to the development of the local wine industry? c) What influence have Sino-foreign wine JVs/wholly foreign-owned wine affiliates and Sino-foreign collaborations brought to other players in the local wine industry? d) What influence has IFDI produced to the local wine industry?

Application for Ethical Approval Outline of Research Project

Waikato Management School
Te Rauupapa



1. IDENTIFY THE PROJECT.

1.1 Title of Project

A study of the impact of foreign direct investment on firms in the Chinese wine industry

1.2 Researcher(s) name and contact information

Haolin Yin
School of Management and Marketing
Phone: 0064 – 226210747, Email: hy113@students.waikato.ac.nz WeChat: yvonneyin2016.

1.3 Supervisor's name and contact information (if relevant)

Chief Supervisor: Professor Michèle E. M. Akoorie
School of Management and Marketing
Phone: 0064 - 7 837 9283, Email: mema@waikato.ac.nz

Second Supervisor: Associate Professor Joanna Scott-Kennel
School of Management and Marketing
Phone: 0064 - 7 858 5022, Email: scottkjo@waikato.ac.nz

1.4 Anticipated date to begin data collection

2017 October

2. DESCRIBE THE RESEARCH.

2.1 Briefly outline what the project is about including your research goals and anticipated benefits. Include links with a research programme, if relevant.

Aim

To study how foreign direct investment influences firms in the Chinese wine industries.

Anticipated Benefits

The application of the IDP and OLI frameworks on the Chinese wine industries would make an original and unique contribution academically and practically for the development of IDP theory at the industry level.

(Appendix 4.4 continued)

2.2 Briefly outline your method.

- 1) I will use a qualitative research method as it is best suited to this area of FDI research: to explore "how" and "why"; to form a global view of the case; and to conduct field work in a culture where face-to-face relationship is highly valued (e.g. China). Also, there will be a large amount of narrative material that needs to be investigated in-depth. Finally, the limited sample size available means that qualitative approach is the best in this case.
- 2) The methods I will use to study the case are documentation review and a face-to-face interview.
- 3) Main documents to be reviewed include company files, industry files, government files, academic studies, and other media information.
- 4) The interview will be semi-structured, face-to-face using both close- and open-ended questions, and will be recorded using a digital recorder.
- 5) I will record all interviews if participant approval is gained. If not, notes will be taken during and immediately after the interviews.

2.3 Describe plans to give participants information about the research goals.

- 1) First, I will talk with potential participants and introduce my research including its purpose and how the interviews will be conducted.
- 2) After prospective participants agree to participate in my interviews, I will email them a copy of the Participant Information Sheet to help them decide whether or not to participate in this project.
- 3) Once the schedule of the interviews has been settled, the participants will receive a copy of a brief interview guide by email.
- 4) Participants will be given a Consent Form to sign off and confirm their rights and duties involving this project, prior to the commencement of the interviews.

2.4 Identify the expected outputs of this research (e.g., reports, publications, presentations), including who is likely to see or hear the reports or presentations on this research

The expected outputs will be 1) my PhD dissertation; 2) conference and journal papers. My supervisors, other scholars, and future students who do similar research via the Waikato University thesis database are likely to see the outcome of this research.

2.5 Identify the physical location(s) for the research, the group or community to which your potential participants belong, and any private data or documents you will seek to access. Describe how you have access to the site, participants and data/documents. Identify how you obtain(ed) permission from relevant authorities/gatekeepers if appropriate and any conditions associated with access.

Interviews will be held at a venue (e.g. interviewees' offices) and time convenient to participants and will therefore, involve travel. I will not seek any private data or confidential information.

3. OBTAIN PARTICIPANTS' INFORMED CONSENT, WITHOUT COERCION.

3.1 Describe how you will select participants (e.g., special criteria or characteristics) and how many will be involved.

- 1) The key criterion of selecting firm/institute participants is evidence of direct or indirect linkage between the firm/institute and foreign direct investment.
- 2) In a wine industry supply chain, segments with a direct linkage with foreign direct investment are, for example, a) wholly-owned foreign chateaus, b) Sino-foreign JV chateaus, c) foreign investors of Sino-foreign JV chateaus.

Segments with an indirect linkage with foreign direct investment include a) Chinese chateaus with Sino-foreign collaborations, b) foreign wine-making experts, c) upstream firms in the Chinese wine industry supply chain (e.g. vineyard owners/equipment supplier/cork supplier/bottle supplier/label supplier/box supplier/barrel supplier), d) downstream firms in the Chinese wine industry supply chain (e.g. wine distributors/chateau tourism & wine culture promotion agency).

Additionally, another two segments which play an important role in creating environment for foreign direct investment include a) local government and b) China's wine associations & research institutes.

- 3) Thus, owners/CEOs from above mentioned firms, foreign wine-making experts, officials from local government, and experts from China's wine associations & research institutes will be prospective interviewees.
- 4) The selection process will follow a snowball approach whereby the contacts and colleagues of initial interviewees will be contacted, and where possibly interviewed, until the responses begin to converge.
- 5) It is estimated that there will be 35 interviewees (can be adjusted later according to a specific situation).

3.2 Describe how you will invite them to participate.

- 1) Representatives (staff) of associations/institutes such as New Zealand Winegrowers, China Alcoholic Drinks Association, China National Association for Liquor and Spirits Circulation, Ningxia Liang-Chen-Mei-Jiu Wine Culture Tourism Ltd. will introduce me and my research to potential interviewees.
- 2) I will communicate with prospective interviewees via WeChat and emails about research project including purpose and how to conduct interviews, as well as collect their contact details.
- 3) Then, I will email them a copy of Participant Information Sheet to ensure they are fully informed about the research goals, research content, how the data will be used and protected, and participants' rights and duties. Also, I will discuss times and venues for interviews with them via email.
- 4) Finally, once a schedule of interviews is confirmed, I will email interviewees with a copy of a brief interview guide.

3.3 Show how you provide prospective participants with all information relevant to their decision to participate. Attach your information sheet, cover letter, or introduction script. See document on informed consent for recommended content. Information should include, but is not limited to:

- what you will ask them to do;
- how to refuse to answer any particular question, or withdraw any information they have provided at any time before completion of data collection;
- how and when to ask any further questions about the study or get more information.
- the form in which the findings will be disseminated and how participants can access a summary of the findings from the study when it is concluded.

(Appendix 4.4 continued)

The Information Sheet attached will be given to all prospective participants. Participants will be taken through this document, prompted for questions, and further explanations will be provided if required.

3.3 Describe how you get their consent. (Attach a consent form if you use one.)

I will ask participants' consent, and have them sign the Participant Consent Form prior to the interview commencing.

3.4 Explain incentives and/or compulsion for participants to be involved in this study, including monetary payment, prizes, goods, services, or favours, either directly or indirectly.

Participants to be involved in this study because they are passionate about the development of the Chinese wine industry and will therefore, contribute to research willingly. There will be no incentives offered either directly or indirectly.

4. MINIMISE DECEPTION.

4.1 If your research involves deception – this includes incomplete information to participants – explain the rationale. Describe how and when you will provide full information or reveal the complete truth about the research including reasons for the deception.

There will be no deception in this research. The purpose of the research will be fully disclosed by the information sheet.

5. RESPECT PRIVACY AND CONFIDENTIALITY

5.1 Explain how any publications and/or reports will have the participants' consent.

By the Participant Information Sheet, the participants will be aware that:

- 1) This research is for my PhD study and a thesis about the research will be submitted to my university;
- 2) Participants could receive an executive summary of the aggregated results;
- 3) There may be further publications as an outcome of the research but no participants' personal identity will be disclosed in any way in these publications.

5.2 Explain how you will protect participants' identities (or why you will not).

Symbols such as "interviewee A (B, C...)" and "firm/institute A (B, C...)" will be used in transcription and as such, no interviewee privacy and firm/institute identity will be disclosed in any research publication. All transcripts and digital recordings will be stored confidentially with password for five years following the completion of the thesis, then will be wiped and destroyed.

5.3 Describe who will have access to the information/data collected from participants. Explain how you will protect or secure confidential information.

No one will be allowed to access to the collected data except for me and my supervisors. To avoid any random access, all transcripts and digital recordings will be stored confidentially with password for five years until this thesis completed, then will be wiped and destroyed.

6. MINIMISE RISK TO PARTICIPANTS.

'Risk' includes physical injury, economic injury (i.e. insurability, credibility), social risk (i.e. working relationships), psychological risk, pain, stress, emotional distress, fatigue, embarrassment, and cultural dissonance and exploitation.

- 6.1 Where participants risk change from participating in this research compared to their daily lives, identify that risk and explain how your procedures minimize the consequences.

All participants are top-level managers/officials of their enterprises/institutes, and because they can decide if or not to accept the interview and how to answer interview questions on their own, there is a minimal risk which might be resulted from participating in this research. Also, participants can opt out at any stage of the research up until one week after the interview.

- 6.2 Describe any way you are associated with participants that might influence the ethical appropriateness of you conducting this research – either favourably (e.g., same language or culture) or unfavourably (e.g., dependent relationships such as employer/employee, supervisor/worker, lecturer/student). As appropriate, describe the steps you will take to protect the participants.

Interviews will be held in China (mostly in Chinese), and I am Chinese, so I will be available to provide an opportunity to answer further questions. No association with participants or negative impacts anticipated.

- 6.3 Describe any possible conflicts of interest and explain how you will protect participants' interests and maintain your objectivity.

There are no conflicts of interest in this research for participants. Because:

- 1) All participants are top-level managers/officials of their companies/institutes, and so they can decide whether or not to answer and how to answer interview questions;
- 2) All information collected from interviewees will only be used for this research;
- 3) All participants will be identified anonymous;
- 4) The signed Participant Consent Forms will show that the participants know how the interview will be conducted and how their information will be used.

7. EXERCISE SOCIAL AND CULTURAL SENSITIVITY.

- 7.1 Identify any areas in your research that are potentially sensitive, especially from participants' perspectives. Explain what you do to ensure your research procedures are sensitive (unlikely to be insensitive). Demonstrate familiarity with the culture as appropriate.

Research questions are not considered to be sensitive in nature, and participants may withdraw statements if they wish to do so after the interviews.

Most interviews will be conducted in China using Chinese. I am Chinese, so I anticipate no culturally sensitive issues, and I will be available to provide an opportunity to answer further questions if needed.

For several interviews with non-Chinese wine-making experts that will be conducted in English, I will suggest experts' Chinese assistants accompany the interviewee if needed.

- 7.2 If the participants as a group differ from the researcher in ways relevant to the research, describe your procedures to ensure the research is culturally safe and non-offensive for the participants.

N.A (see above)

Consent Form for Participants

Waikato Management School
Te Raupapa



A study of the impact of foreign direct investment on firms in the Chinese wine industry

Consent Form for Participants

I have read the **Information Sheet for Participants** for this study and have had the details of the study explained to me. My questions about the study have been answered to my satisfaction, and I understand that I may ask further questions at any time.

I also understand that I am free to withdraw from the study at any time up until one week after the interview, or to decline to answer any particular questions in the study. I agree to provide information to the researchers under the conditions of confidentiality set out on the **Information Sheet**.

- ☐ I agree for this interview to be voice recorded
- ☐ I agree to participate in this study under the conditions set out in the **Information Sheet** form.

Signed: _____

Name: _____

Date: _____

Contact Information

Researcher: Haolin Yin, Department of Strategy and Human Resource Management,
Phone: 0064 – 226210747, Email: hy113@students.waikato.ac.nz WeChat: yvonneyin2016.

Chief Supervisor: Professor Michèle E. M. Akoorie, Department of Strategy and Human Resource Management, Phone: 0064 - 7 837 9283, Email: mema@waikato.ac.nz

Second Supervisor: Associate Professor Joanna Scott-Kennel, Department of Strategy and Human Resource Management, Phone: 0064 - 7 858 5022, Email: scottkjo@waikato.ac.nz

Consent Form for Participants

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- ☐ I agree for this interview to be voice recorded
- ☐ I agree to participate in this study under the conditions set out in the **Information Sheet** form.

Signed: _____

Name: _____

Date: _____

Contact Information

Researcher: Haolin Yin, Department of Strategy and Human Resource Management,
Phone: 0064 – 226210747, Email: hy113@students.waikato.ac.nz WeChat: yvonneyin2016.

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Appendix 4.7 Coding platform of Nvivo (Author's research)

The screenshot displays the NVivo Pro software interface. The title bar indicates the project name: "The impact of IFDI on firms in the Chinese wine industry.nvp - NVivo Pro". The main menu includes FILE, HOME, CREATE, DATA, ANALYZE, QUERY, EXPLORE, LAYOUT, and VIEW. The ribbon contains various tools for data management, analysis, and reporting.

The left sidebar shows the project structure with "Sources" selected. Under "Sources", there are "Internals", "Externals", "Memos", and "Framework Matrices". The "Internals" section is expanded, showing a list of interview sources with columns for Name, Nodes, and References.

Name	Nodes	References
Interview 37	0	0
Interview 38	0	0
Interview 39	0	0
Interview 4	0	0
Interview 40	0	0
Interview 41	0	0
Interview 42	0	0
Interview 43	0	0
Interview 44	0	0
Interview 45	0	0
Interview 46	0	0
Interview 47	0	0
Interview 48	0	0
Interview 5	0	0
Interview 6	0	0
Interview 7	0	0
Interview 8	0	0
Interview 9	0	0

The right pane shows the selected source, "Interview 1", with a "Click to edit" link. The text content of the interview is displayed, including a section on "O-advantages" and a detailed description of a workshop and its state of arts (工艺水平).

The bottom status bar shows "48 Items", "Nodes: 0", "References: 0", and "Read-Only". The line and column indicators show "Line: 1 Column: 0".

Appendix 5.1 Representative quotations demonstrating the existing O-specific advantages, resources and capabilities of local Chinese wine firms

Representative quotations from interviews	
(Original quotations in Chinese / English)	(English translation)
<p>“中资方的投入包括资金、关于拓展本地市场的经验、销售渠道、与当地政府的联系等。” (JV-受访者1)</p> <p>“The Chinese partner invested in the workshop with two million Euros and substantial investment again. They provide physical assets.” (JV-Interviewee 2)</p> <p>“中方提供了资金、当地的人脉关系、中国市场销售网络。” (JV-受访者3)</p> <p>“中方提供资金、当地的人力资源、当地的葡萄种植技术和葡萄酒酿造技术、以及中国葡萄酒进出口、葡萄酒国内销售、酒庄管理的知识和经验等。” (JV-受访者4)</p> <p>“中资方给合资葡萄酒企业带来本地知识。这包括第一，中资方更擅长与当地政府部门，以及本地合作商沟通。第二，中资方更了解中国的市场的营销模式。第三，中国本土技术人员更了解当地产区葡萄品种的选择和栽培模式（比如葡萄架型，葡萄藤在冬季是否需要埋土防寒等有别于国外使用的栽培模式）。第四，中国本土的技术人员更了解当地产区的气候。” (E-受访者2)</p> <p>“中方提供的硬件主要包括，酒庄/酒厂的主体建筑、酒窖、发酵车间、葡萄原料基地、资金。过去中国缺少设备和技术的年代，外资方还向合资企业投入设备和技术，但现在中方也提供设备。中方在软件方面提供的资源包括本地知识，比如跟当地政府部门、农民打交道的便利性。” (E-受访者3)</p> <p>“中方提供便利的服务。中方熟悉当地建酒庄的条例。中方具有可以与当地政府、企业、私人打交道的经验。中方可以提供其它相对便宜的条件，比如人力资源、中国制造的产品。” (E-受访者4)</p>	<p>The Chinese investors bring in Capital, experience of developing local market, local distribution channels and connections with the local government. (JV-Interviewee 1)</p> <p>The Chinese partner firm invests Capital, social and professional networks, and distribution channels in the Chinese wine market. (JV-Interviewee 3)</p> <p>Chinese investors invest capital, human resource with local knowledge and experience regarding wine grape planting, winemaking, wine import and export business, domestic wine sales, and winery management. (JV-Interviewee 4)</p> <p>Chinese investors bring in local knowledge for Sino-foreign JVs. First, Chinese investors are better good at communicating with local government and local business partners. Second, Chinese investors are more familiar with Chinese marketing mode. Third, Chinese wine-makers know more about local wine grape's varieties and cultivation such as vine posture and vine-burying (in some China's wine regions vines need to be buried in the soil in winter to prevent cold harm and then pulled back in spring.) Fourth, local wine professionals know more about local climate. (E-Interviewee 2)</p> <p>Chinese investors provide physical assets include winery buildings, cellars, brewing shops, vineyards and capital. Before wine equipment and technology were brought by foreign investors because China did not have those, but now Chinese investors also afford them. Chinese investors bring local knowledge as well. For instance, Chinese investors take charge of dealing with local government and farmers. (E-Interviewee 3)</p> <p>Chinese investors bring local knowledge. For example, Chinese investors are more familiar with local regulations regarding winery establishment. Chinese investors have experience of dealing with local government, local business partners and local people. Chinese investors know more about local resources such as labour and products. (E-Interviewee 4)</p>

Appendix 5.2 Representative quotations demonstrating O-specific advantages, resources and capabilities contributed to Sino-foreign wine JVs by foreign MNEs

Representative quotations from interviews	
(Original quotations in Chinese / English)	(English translation)
<p>“意大利股东引荐几家设计公司给公司的工业园做设计规划。集团层面，外方股东投入资金，通过董事会来管理公司（知识）。集团旗下的合作/合资的项目很多，双方在软件、硬件方面都会有投入。外方会带来企业的国际性、国际运作经验、企业统一治理的能力、国际市场资源、产品的优越性能、葡萄酒酿造的专业技术，以及中外技术交流的渠道。” (JV-受访者1)</p> <p>"Foreign investor brings in intangible assets including a) consultancy from grape to consumer, b) an international point of view, international experience and know-how on marketing and sales, branding, winemaking in cellar and production, chateau management covers from vineyard, production to cellar, c) close relationship with customer base, distribution channel and professional connections of wine industry in Europe, and d) experience of profession, namely, experience of paying attention to details of the cooperation." (JV-Interviewee 2)</p> <p>“外方带来了资金、技术、管理理念、英国市场的销售渠道。第一代外方投资人是在香港工作的英国人，为在香港找酒标设计师提供了便利，并且酒标的风格借鉴国外的酒标风格。第二代外国投资方是世界上知名洋酒集团，具有很强的技术力量，对于用什么原辅料以及供应商的技术实力都很熟悉。并且，第二代外国投资方雇佣的外籍顾问团负责培训中方人员，安排中方人员到国外学习。并且负责评估外籍酿酒师的工作效果、根据公司的酿酒需求从国外不同葡萄酒产区招聘酿酒师，比如公司明年要做法国风味的葡萄酒，顾问团明年就从法国招聘酿酒师。” (JV-受访者3)</p>	<p>Italian investor brought in its professional connections in the wine industry overseas by recommending several design firms for designing and planning the construction of the industrial park under the JV. Foreign investors of the JV have brought in capital; they have governed the JV through the board of directors. There are many Sino-foreign JVs and Sino-foreign collaborations under the JV. Chinese and foreign business partners have both invested physical and intangible assets. Foreign investors have brought in the JV with internationality, international experience, common governance, access to markets and resources overseas, product differentiation, winemaking technology and experience, and approaches of Sino-foreign technical exchange. (JV-Interviewee 1)</p> <p>1. Foreign investors brought in capital, technology, management expertise and experience, and distribution channel overseas. The first foreign investor was a British who worked in HK, so he also brought in a convenience for looking for wine label designer in HK, and “Old World” wine label style. The second generation of foreign investor was a world-class spirits group that with strong industry background and technology competence, was very familiar with the usage of winemaking auxiliary material and suppliers’ technological strength. Also, the second generation of foreign investor engaged a foreign winemaking technology consultancy in the JV’s staff training programme, and arranged local staff with overseas study opportunities. The foreign winemaking technology consultancy also looked for wine-makers from foreign wine-producing regions according to the JV’s production requirements, and then assessed foreign winemakers’ work. For example, if the JV planned to make French style wine next year, the consultancy would start to recruit winemakers from France. (JV-Interviewee 3)</p>

<p>Appendix 5.2 (continued)</p> <p>“法方提供了硬件和软件。首先硬件方面，法方投入了资金。其次，软实力方面，第一，法国投资方在葡萄酒行业经验丰富，能够接触到前沿的行业信息，比如企业打算购买设备，外资方知道什么是当下最流行和最成熟的技术。第二，法方有很多行业内的关系和人脉，方便寻找和聘请经验比较丰富的专家，帮助企业建立生产流程，对产品质量有一个很好的保障。法方聘请有实力的法国技术团队给酒庄提供技术支持，比如通过几年的实验和观察，找到这块地到底适合种什么葡萄品种。第三，作为法国经销商的法国投资商有市场经验，能够根据市场发展趋势对酒庄应该种植什么葡萄品种、酿造什么葡萄酒提出前瞻性建议。第四，我们有一小部分葡萄酒出口到巴黎，作为葡萄酒经销商的法国投资方为此提供了他的优势 - 国外市场的经销渠道和展示的机会。” (JV-受访者4)</p> <p>“外资方带来品牌、技术、运营管理的经验、资本、比较严谨的技术规范和操作规范。” (E-受访者1)</p> <p>“外国投资商在中国建立葡萄酒生产企业给当地葡萄酒行业带来不同的葡萄酒企业经营理念。比如外资葡萄酒企业，以及外资占股比重大的中外合资企业知道葡萄酒事业是长线投资，于是他们对企业有长远规划，更重视葡萄种植和葡萄园的管理。相比之下，中资酒庄希望建庄2、3年就盈利，而且更注重对酒庄建筑本身的投资。”</p> <p>“外商投资的葡萄酒企业对当地葡萄酒行业的葡萄栽培和葡萄酒酿造的理念、技术的进步起到促进作用。” (E-受访者2)</p> <p>“2. 宣传作用。投资中国葡萄酒行业的一般都是国际大型酒企，比如拉菲入住蓬莱产区，吸引了很多关注，提升了蓬莱的产区品牌。 3. 对当地的葡萄种植、葡萄酒酿造技术的提升发挥了示范和推动作用。如果外资酒企做得好，会成为当地企业借鉴的模板，大家学习的标杆。比如夏桐在宁夏建厂，起泡酒做得相当棒，葡萄园管理得也挺好。前去参观的人也不少。 4. 外资方带来了成熟的葡萄酒酿造技术，并帮助培养本地员工。” (E-受访者3)</p>	<p>French investors have contributed capital and soft power. For example, first, French investors have rich experience in the wine industry and access to well-developed technology, which was helpful when the JV planned to purchase equipment. Second, French investors have wide connections and contacts in the wine industry. With this advantage, the JV engaged foreign experts to help the chateau build production process which ensured wine quality. Also, through the French investors, the JV collaborated with a French winemaking technology consultancy to find out the most suitable grape varieties for the chateau to plant by a few years' observation and experiment. Third, French investors as experienced wine distributors provided prospective suggestions about wine products that the JV can produce, according to market trends. Fourth, French investors provided their sales and marketing channels in Paris for the JV's exports. (JV-Interviewee 4)</p> <p>Foreign investors bring famous wine brands, technology, management experience, capital, rigorous technological standards and operation specifications. (E-Interviewee 1)</p> <p>Foreign investors bring western chateau operation concepts. For example, wholly foreign-owned wine companies and Sino-foreign JV wine companies with foreign investors as the controlling shareholder understand that chateau business needs a long-term investment, so their investors pay more attention to winegrowing and vineyard management. By contrast, many Chinese wineries want to make a quick profit two to three years after the winery establishment, so they pay more money on winery building's construction.</p> <p>IFDI wine companies help improve the concepts and techniques of local winegrowing and winemaking. (E-Interviewee 2)</p> <p>2. IFDI helps advertise the Chinese wine industry. It attracts attention from the world when famous international wine companies come to build branches in China. For example, Les Domaines Barons de Rothschild (Lafite) established its Chinese chateau in Penglai wine region, which dramatically enhances the regional brand of Penglai area. 3. IFDI has a demonstration effect in winegrowing and winemaking, and so helps improve the winegrowing and winemaking techniques of local wine industry. For instance, Chandon builds a chateau in Ningxia and produces very good bubble wine. Its vineyard management is quite successful, which attracts many visitors. 4. IFDI brings developed winemaking techniques and helps train up local staff. (E-Interviewee 3)</p>
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Appendix 5.2 (continued)

“1. 世界知名葡萄酒品牌企业到中国建立葡萄酒生产企业，有助于打造产区品牌，为产区吸引更多的投资。
2. 外资企业进入宁夏葡萄酒行业会带来非常不同的理念，如何做品牌、如何做销售、如何做品质。这些都会当地的葡萄酒企业带来示范效应。
3. 外国直接投资会加速当地葡萄酒行业人才交流。因为外资企业吸纳人才，选择本区域它认为最优秀的人才。但外企的人才流动非常大，这对产业来讲是好事，因为通过人才流动促进外资企业的优势在当地的传播。
4. 外资带来很多资源。比如当地外资葡萄酒企业会带来经销商和国际媒体，也许经销商会看看其它企业的发展。国际媒体在宣传企业的同时会宣传产区。
5. 外资对当地葡萄酒企业有技术带动作用。比如，国外知名的葡萄酒企业能接触国际上最先进的种植和酿造技术、理念。这会通过示范效应对于本土酒庄发挥作用。
6. 外商投资中国葡萄酒行业会带来资金。”
(E-受访者4)

“1. 外资带来资金，建设葡萄园和酒庄，投入酿酒设备，增加了当地葡萄酒行业的体量。
2. 外资带来知识和技术包括葡萄酒酿造和葡萄园病虫害防治，以及生产管理经验。
3. 外国直接投资有利于提升产区的品牌。
4. 外国直接投资带来生产、管理、经营理念。这给地方葡萄酒局管理官员为今后产区定位，生产管理注入新思想，进一步结合产区传统特点，制定促进产区可持续发展的政策。”
(E-受访者5)

1. Famous international wine companies come to build branches in China. This is helpful for China to establish a brand of local wine region and attract more investment.
2. IFDI investing in Ningxia wine industry brings different concepts of how to make quality wine, how to build brands, and how to market and sell wine. These have a demonstration effect on other local players.
3. IFDI brings a positive impact on other local wine enterprises. IFDI wine companies recruit local talents. Their former employees transfer skills and experience learned in IFDI companies to new workplaces.
4. IFDI brings resources. For instance, local IFDI wine companies invite wine distributors and international media to visit their chateaus. Their distributors might want to have a look at other local chateaus as well on their trips. Then international media helps promote the local wine region when reporting about the IFDI wine companies.
5. IFDI wine companies have access to cutting edge wine-related techniques and so have a positive impact on local other chateaus via a demonstration effect.
6. IFDI brings capital.
(E-Interviewee 4)

1. IFDI helps grow the capacity of the local wine industry by bringing capital, building vineyards and chateaus, and investing wine equipment.
2. IFDI brings knowledge and techniques of winemaking and vineyard pest control, as well as wine production experience.
3. IFDI helps promote the brand of local wine region.
4. IFDI brings different concepts of production, management and operation. These provide a new reference for local wine bureau officials when positioning local wine region and managing local wine production. By combining foreign developed concepts and local realities and features, local wine bureau officials can make policies better suitable for the sustainable development of the local wine industry.
(E-Interviewee 5)

Appendix 5.2 (continued)

“讲硬件包括设备、厂房，中国一点不落后于国外。政府招商引资，1. 他们带来先进的酿酒理念、技术、经验和细节，以及做葡萄酒市场理念和经验。以拉菲蓬莱酒庄为例（2010 - 2017 中法合资；2018年开始法资），首先它的经营理念体现的是要踏踏实实做好酒，而不是想着挣快钱。比如拉菲2010年宣布选址烟台蓬莱，2011年开始建葡萄园，2016年开始酿酒。截至2017年该酒庄还未开始卖酒。再从葡萄栽培和葡萄园管理来看，根据烟台葡萄酒局的专家介绍，“拉菲蓬莱酒庄的葡萄结果比同产区内其它的葡萄园好，病虫害也少。拉菲蓬莱酒庄在建设葡萄园之初，把当地的土壤送到法国检测其微量元素和有机质，根据检测结果和当地的气候特点，选择酿酒葡萄苗木。在葡萄栽培过程中，第一年会把长得弱小的葡萄苗用小旗子标识，分析原因，采取措施改善。树势控制得好，葡萄果实产量不高不低，都长在一个高度。”这些都是葡萄园管理经验的体现。

2. 有利于产区品牌的宣传。”

（E-受访人6）

“外企有先天的优势，比如在国内的资源更丰富，比较容易获得国际上更先进的设备、田间种植的技术等。这会给当地同行带来示范效应。”
(E-受访者7)

1. The physical conditions in the Chinese wine industry such as equipment and plant construction are not behind foreign countries. Hence, the local wine region government hopes IFDI to bring developed winemaking concepts, techniques, experience and details, as well as wine marketing idea and experience. For instance, Chateau Lafite's estate in Penglai (2010-2017, Sino-France JV; 2018-, wholly French-owned wine company) was decided to locate in Penglai of Yantai in 2010. It started to build its vineyard in 2011 and started to brew wine in 2016. By the end of 2017, it has not been ready to sell its wine. This internationally famous wine-producer understands that winemaking is not for making quick money, but for making quality wine.
In terms of vineyard management, compared to other local chateaus, Lafite's vineyard has better grape and less plant diseases and insect pests. At the beginning of the vineyard establishment, Lafite's investors sent local soil to France for an inspection of microelements and organic matter. Then they chose grape seedlings according to inspection results and local climate. During grape cultivation, they used little flags to mark weakly growing seedlings, analysed reasons and improved planting. They well control vine growth and berry yields. All grape berries are hanging at almost the same height level. These all come from precious experience.
2. Sino-foreign JV companies are beneficial for advertising local wine region.

(E-Interviewee 6)

Wine enterprises with IFDI involvement have some advantages in nature. For example, they have more resources overseas. It is easier for them to obtain advanced equipment and techniques of winegrowing. These can cause a demonstration effect for local wine firms.
(E-Interviewee 7)

Appendix 5.3 Representative quotations demonstrating resources and capabilities transferred from Sino-foreign wine JVs and wholly foreign owned wine affiliates to local Chinese suppliers, distributors and alliance partners via non-equity linkages

Representative quotations from interviews	
(Original quotations in Chinese / English)	(English translation)
<p>“The chateau printed the first round of label in Germany to set the quality standard for later domestic label printing.” (JV-Interviewee 2)</p> <p>“寻找当地的瓶子厂，给他们提供勃艮第瓶型、波尔多瓶型的样品，通过沟通、商量请当地厂商做模具和生产。同样地，外方也会就软木塞和酒标跟当地供应商沟通。” (JV-受访者3)</p> <p>“首先该外资葡萄酒企对葡萄供应商提供品质内控，比如针对葡萄种植、葡萄园土壤、葡萄园管理方面提供信息和技术建议，并跟踪管理，以及对葡萄采摘提出要求，从而确保葡萄质量达到要求。但不提供葡萄植株、设备、融资。第二，该外资葡萄酒企业给本地纸盒厂供应商，提供一些设计和标准。再次，该外资葡萄酒企业给酒标设计供应商提供行业标准。” (WFO-受访者1)</p> <p>“对于酿造车间使用的辅助设备，我们企业给本地的供应商提供设计草图并与供应商共同研制出最终产品。” (WFO-受访者1)</p> <p>“1. 外资酒庄会给标签印刷供应商提供国外的参考样本。 2. 外资葡萄酒企业会给中国本土的酒标印刷供应商提供酒标印刷方面的经验和知识。比如，外资葡萄酒企业会给中国本土的酒标印刷供应商介绍他们在国外正在使用的酒标印刷材料，并提供样品以做测试和对比中国的材料。这样帮助中国本土酒标印刷供应商开拓眼界，并了解了耐冰桶的防水性能和烫金性能更好的酒标材料。” (S-受访者11)</p>	<p>The JV communicated with local suppliers such as providers of wine bottle, cork and wine label about the JV's requirements. For example, the JV discussed with local glass manufacturers about mould-making and production by providing samples of Burgundy bottle and Bordeaux bottle. (JV-Interviewee 3)</p> <p>First, the company helps outside wine grape suppliers with their quality control systems. For example, the company provides information and technology suggestion regarding grape-growing, vineyard soil and vineyard management. The company also has specific requirements towards grape harvest. Further, in order to ensure grape quality, the company supervises suppliers with their quality control. However, the company does not offer help to suppliers with seedling, equipment and finance. Second, the company provides design plans and standards for local carton suppliers. Last, the company provides local design firm with industrial standards for wine label design. (WFO-Interviewee 1)</p> <p>When customising auxiliary equipment for brewing shops, our company provides local manufacturer with design sketches; then the two parties discuss, amend and innovate the design together. (WFO-Interviewee 1)</p> <p>1. Wholly foreign -owned wine firms provide wine label samples from overseas to the Chinese wine label supplier. 2. Wholly foreign -owned wine firms introduce knowledge and experience about wine label to the Chinese wine label supplier. For example, a wholly foreign -owned wine firm brought a wine label material that they used overseas for the Chinese wine label supplier to conduct a label ice bucket test and to compare with China's label materials. Through the test, the Chinese wine label supplier broadened its horizon and found a label material with a good waterproof performance and bronzing performance which can pass ice bucket test. (S-Interviewee 11)</p>

Appendix 5.3 (continued)

“1. 外资葡萄酒企业要求中国本土礼盒包装生产和供应商量产前要对礼盒样品进行严格和规范的功能性测试，比如，在模拟大货运输和储存环境中对礼盒进行摔降测试、高低温测试。这样既能最大限度保证大货没问题，又能争取在测试中发现问题，为下次制作积累经验。这促进我们质量管理体系的提升。

2. 客户验厂也是对我们的提升，包括质量、环境、社会责任。社会责任，比如，超时加班、公司福利、待遇、员工歧视、强迫劳动。其中强迫劳动是行业红线，如果企业涉及强迫员工劳动，验厂就不会通过，意味着客户不会给我们订单。客户常规验厂有两种方式：一种是委托第三方机构比如SGS，根据客户需求进行。验厂前通知工厂，说明时间、需要哪些人员配合、需要哪些资料。另一种方式是客户公司自己的相关部门，比如我们公司也会派人审核我们自己的供应商资质，包括产品质量的保证能力、交货的及时性、反映速度、服务质量等。

“
(S-受访者12-1)

“1. 与葡萄酒企业合作的时候，企业客户有时会提供样瓶，为生产供应商的技术部门画图提供参考。

2. 通过与知名中外合资葡萄酒企业合作，为了满足瓶子能够抵抗在灌装线上快速移动时候产生的摩擦，我们公司改进技术，提高玻璃涂层的质量和瓶子玻璃厚薄的均匀度，加强检验力度，防止瓶身磨损或裂纹。

3. 国外要求葡萄酒瓶有不能含有重金属元素。为了满足相关要求，我们公司在给生产出口葡萄酒的葡萄酒企业，包括中外合资葡萄酒企业和中资企业，提供瓶子的同时，需要提供检验单。这是间接对葡萄酒瓶子供应商从产品和技术方面提出了要求。”

(S-受访者13)

“目前中国的葡萄酒企业包括中资、中外合资、外资企业一般只使用世界知名的大型的软木塞供应商的产品。因为软木塞容易含有致癌物质，并且对葡萄酒的质量有直接影响，而中国不具备生产优质软木塞的材料（橡木皮）和技术。世界知名的大型的软木塞供应商在中国各葡萄酒产区都有代理商/经销商。酒企会指定代理商采购某些品牌以及类型的塞子或者指定不采购某些品牌以及类型的塞子。”

(S-受访者14)

1. The wholly foreign-owned wine enterprise requests Chinese local supplier to conduct strict and standardised function tests for gift box samples before massive production to ensure product quality as much as possible. Our company accumulates experience if any problem found during tests. Also, we learn about function tests of gift boxes before massive production; the function tests include fall drop test and high-low temperature test in a stimulated environment of freight and storage. This helps us improve its quality management system.

2. The wholly foreign-owned wine enterprise requests a factory inspection to the supplier before collaboration. The inspection covers product quality, working environment and CSR. CSR includes overtime work, company welfare, employee salary, employee discrimination and forced labour; of which forced labour is the red line and can make the supplier fail the factory inspection. The factory inspection helps our company improve its competence. Through the collaboration, our company learns about the factory inspection and starts to conduct factory inspection to our suppliers.

(S-Interviewee 12-1)

1. Wine companies provide bottle samples for the technique department of our company to draw a sketch.

2. A Sino-foreign JV wine enterprise has high effective bottling lines which request bottles with better anti-wear performance. Our company improves our techniques and inspection to avoid bottles from being worn and cracked.

3. Some Sino-foreign JV wine enterprises and Chinese wine enterprises request bottles without heavy metal elements for exported wines. Our company improves techniques and production standards to meet the requirements, as well as provides inspection reports for customers.

(S-Interviewee 13)

All wine-producing firms including Chinese wineries, Sino-foreign wine JVs and wholly foreign-owned wine affiliates only purchase corks made by internationally well-known manufacturers. The reason being that it is easy to contain TCA (trichloroanisole) contamination in corks during production; and the TCA negatively affect wine quality directly. Although China does not have quality oak trees and related technology for making corks, there are suppliers and agents selling corks from all well-known international manufacturer in nearly all China's wine regions. Wine-producing firms source specific brands and types of corks from agents or tell agents what specific brands or types of corks they do not want.

(S-Interviewee 14)

<p>Appendix 5.3 (continued)</p> <p>“中外合资葡萄酒企业和国际知名品牌在华的外资葡萄酒企业都有完善管理体系。他们会给中国本地的如木塞供应商提供企业的内控标准，让我们公司按照他们的质量标准，例如外观、尺寸、级别等参数来供货。” (S-受访者15)</p> <p>The parent company has its own marketing and sales company. (JV-Interviewee 2)</p> <p>“国内市场是酒庄自己直销。” (JV-受访者4)</p> <p>“1. 我们公司指导、帮助经销商设计、布置展柜。 2. 我们提供费用、人员的支持，为促销提供酒样、赠品，对经销商的培训，协助经销商开展品鉴会，讲解酒背后的故事、文化等，售后的客户维护，组织活动包括品鉴会和酒庄旅游等。” (WFO-受访者1)</p> <p>“我们提供产品支持，提供培训，销售商的QSM和针对市场推广的支持。产品支持是销售政策上的支持，比如为他们销售做活动，新年礼盒，价格优势，品鉴会。” (WFO-受访者3)</p>	<p>Sino-foreign JV wine firms and wholly foreign-owned wine branches built by famous international wine companies have complete management systems. They provide their internal quality control standards such as parameters for cork's appearance, size and quality grade to us for sourcing products for them. (S-Interviewee 15)</p> <p>The JV conducts domestic sales via direct selling mode. (JV-Interviewee 4)</p> <p>1. Our company helps distributors design and decorate store displays. 2. Our company assists distributors to organise wine tasting parties by providing wine samples, marketing fees and freebies. We offer winery tourism to assist distributors to promote wine sales. We also provide training to distribution company's sales staff about product knowledge. Again, we send supportive staff to distributors' promotion events to talk about behind-scene stories and culture about our wines and brands. (WFO-Interviewee 1)</p> <p>We provide distributors with support including product, training, QSM (quantitative software management) and market promotion. For instance, according to company's sales policy, the product support means that we give distributors favourable price, gift boxes and wine samples for tastings. (WFO-Interviewee 3)</p>
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<p>Appendix 5.3 (continued)</p> <p>“1. 售后服务体现在酒企对经销商的员工做培训，给分销商做培训，对经销商在全国各地的团队举行消费者见面会给予人力支持。培训包括酒庄的创业故事，每款酒的市场方向，品尝每一款酒，让一线员工对酒的质量有一个新的感受。</p> <p>2. 酒庄给经销商提供市场推广费用。与我们一起参加展会，媒体推荐会等。</p> <p>3. 技术支持体现在向专业群体解答葡萄园一年四季的管理，从葡萄园到酒杯整个过程的差异包括用什么样的方式采摘，green harvest 的强度，发酵时什么样的酵母及橡木桶，木桶里的陈酿时间，上市前在瓶中的陈酿时间等技术信息，经营理念。”</p> <p>(D-受访者1)</p> <p>“1. 酒庄提供高品质的葡萄酒。</p> <p>2. 酿酒师给经销商提供关于自酿葡萄酒产品的培训，参加经销商组织的推广活动包括展会，葡萄酒大赛，媒体宣传和品鉴会，葡萄酒晚宴，拜访客户，给客户提供培训，参与经销商的营销的讨论并提供行业信息。”</p> <p>(D-受访者2)</p> <p>“我们与葡萄酒经销商签订战略合作协议，通过各自的销售渠道为对方销售葡萄酒。”</p> <p>(JV-受访者1)</p> <p>“1. 当地葡萄酒局购买我们公司获得大奖的珍藏版干白作为当地政府活动指定用酒，并由此为企业做宣传。</p> <p>2. 我们公司可以赞助商名义与游艇比赛，高尔夫比赛合作，以及赞助名人婚礼等。”</p> <p>(WFO-受访者1)</p>	<p>1. Wineries provide training for distribution company's staff and its sub-distributors. The training contents include winery story, wine's market direction and wine tasting. Through the training, front-line salespersons better understand the wine quality.</p> <p>2. Wineries provide the distributor with market promotion funding. Wineries' representatives co-work with the distributor to attend wine exhibitions, media conferences and consumer clubs throughout the country.</p> <p>3. Wineries' representatives co-work with the distributor to answer wine professionals' enquiries during promotion events. Wineries' representatives introduce their winery management regarding grape-picking, green harvest, the usage of yeasts and oak barrels, wine's aging time in barrels, wine's aging time in bottles before sales, and investors' business concepts.</p> <p>(D-Interviewee 1)</p> <p>1. The winery supplies quality wines.</p> <p>2. Winemakers provide training to the distributor about their wines. They attend promotion events, tastings and wine dinner parties organised by the distributor and visit customers. The winery works with the distributor to discuss about marketing programmes and provides industry information.</p> <p>(D-Interviewee 2)</p> <p>Our company has strategic alliance agreements with local wine distributors based on which we sell some specific wines for each other through our own distribution channels.</p> <p>(JV-Interviewee 1)</p> <p>1. Our company has white wine products that gained global awards. The local wine bureau buys some of those from us to use for government events. This helps advertise our company.</p> <p>2. Our company sponsor yacht contests, golf contests and celebrities' weddings with our wine products.</p> <p>(WFO-Interviewee 1)</p>
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Appendix 5.4-1 Representative quotations and archival entries underlying second-order themes for the leverage of foreign O_F-specific advantages, resources and capabilities via equity linkages

Representative quotations and archival entries underlying second-order themes for O _F leverage via equity-based linkage		
Application: (Construct 1)	(Original quotations in Chinese & English)	(English translation)
Chinese wine firms learn and apply western entrepreneurial skills, and knowledge and experience of corporate governance from foreign wine affiliates for corporate establishment, governance and management.	“公司从国有企业改制成中外合资企业，是政府行为，政府主导招商引资，并决定企业股权结构。” (JV-受访人1)	The company was restructured from a state-owned company to a Sino-foreign JV. It was a government action and the new corporate ownership structure was totally decided by the local government. (JV-Interviewee 1)
	"I have known the company and the bosses for 12 years. I tried 10 years to sell their wines in Europe with no marketing...About two and half years ago, the CEO at the time and I decided that we wanted to start a collaboration where I will do winemaking consultancy for the chateau, as well as develop European market for its wines." (JV-Interviewee 2)	-
	“由于当地政府招商引资，1985年，在香港工作的英国人以自然人投资的形式和当地政府合资建立该葡萄酒庄，后来他把股份卖给了一家知名的英国烈性酒公司。该公司在中外合资期间都是政府控股，由董事会管理。” (JV-受访人3)	In 1985, in response to the local government's FDI invitation, an English businessman who worked in HK partnered with the local government to establish this winery. Later, the foreign investor sold his share to a famous British spirits company. The chateau is governed via a board of directors, with the local government as the controlling shareholder in the Sino-foreign operation. (JV-Interviewee 3)
	“中方经理人执行政府和外商商定的投资方案，发挥本地经验。” (JV-受访人1)	Chinese executives implement the investment plan decided by the local government and foreign investors combining their local knowledge. (JV-Interviewee 1)
	“公司董事会按照企业董事会规则运行。不管是中方还是外方，各董事代表各自股东的利益，从各自的角度说话，达不成一致事情就不能办，达成一致就能办，大家都非常职业化的。董事会研究的题目基本上是投资计划、年度经营计划、购并、任命管理层。中国人董事是执行董事，代表公司管理层和员工的利益。管理层都是中国人。” (JV-受访人1)	The board of directors operates professionally. Chinese directors and foreign directors act on behalf of investors and shareholders. Any issue that is discussed on the board of directors can only be proceeded when all directors reach an agreement. The board of directors is responsible to discuss, decide and audit corporate investment programme, annual business plan, mergers & acquisitions and management appointment. Chinese directors are executive directors who represent the interest of company's staff. Managers are all Chinese. (JV-Interviewee 1)

Appendix 5.4-1 (Continued)

"Only cork because these are conservative chateau wines in a traditional European style."
(JV-Interviewee 2)

“该公司的葡萄酒目前都用瓶塞。因为中国消费者觉得螺旋盖是便宜酒的标志。”
(JV-受访者3)

“我们公司目前都用软木塞封瓶。这由外国投资方的背景和市场因素决定。投资方是法国葡萄酒经销商，旧世界葡萄酒的观念（第二大类题目考察的是internalisation）。市场因素体现在，目前中国市场对螺旋盖还没有一个比较清晰的认识。第一，螺旋盖容易让人联想到可口可乐、果汁等廉价饮料。第二，绝大部分消费者认为葡萄酒就应该是软木塞这样比较传统的包装。螺旋盖可能会破坏一些初级的，对葡萄酒刚刚产生认识的人对葡萄酒的美好幻想。”
(JV-受访者4)

“酒标国际化体现在中英文双语标识。张裕的酒标传统上讲求旧世界葡萄酒生产国的风格。现在部分酒标的设计风格从旧世界转向新世界以迎合年轻消费者的审美喜好。”
(JV-受访者1)

"The same label as in Europe basically, but there is a little bit more information at the back label for local wines."
(JV-Interviewee 2)

“外方尊重中方的意见，找香港人设计酒标，借鉴国外的酒标。”
(JV-受访者3)

“对于葡萄酒酒标，公司采取的方式是同时参考中国和法国的行业标准。所以在我们的正标的下方用法语标注了酒庄内装瓶（中国对“酒庄内装瓶”的标识不做要求，但法国要求酒庄内装瓶的葡萄酒必须标注），以及产地等信息。背标同时用中文和法语标注了葡萄品种。”
(JV-受访者4)

Currently our wines use cork, because most Chinese consumers think screw tops are used for cheap wines.
(JV-Interviewee 3)

Currently our wines use cork. This is decided by foreign investor's industrial experience and company's main target market. First, our foreign investors are wine distributors in France. They have “Old World” wine-style concept. Cork is traditionally used for sealing wine bottle. Second, now Chinese wine market does not have a right awareness towards screw top. Most Chinese consumers easily to associate screw top with cheap drinks such as cola or juice, and acknowledge wine with cork as a traditional package. Hence, screw top might destroy the fantasy of some new fans to wine.
(JV-Interviewee 4)

The company internationalises the wine label using Chinese and English languages. The company's wine label traditionally adapts “Old World” wine-producing country's style. Now, the company starts to design some of its wine labels in “New World” wine-producing country's style in order to meet the aesthetic preferences of young consumers.
(JV-Interviewee 1)

With foreign investors' suggestions, the company hired wine label designer from HK and utilised foreign wine label style.
(JV-Interviewee 3)

The company's wine label complies with wine industrial standards in both China and France. For example, its front label records “bottled in chateau” and place of origin in French. French wine industrial standard requires label to mark “bottled in chateau” if the wine is bottled in a chateau; but there is no such a requirement in China. Also, its back label indicates wine grape varieties in both Chinese and French.
(JV-Interviewee 3)

Appendix 5.4-1 (Continued)

"The chateau follows European codex, zero additives and preservatives for wines. "
(JV-Interviewee 2)

“从1998年开始都是国际通用的标准。现在中国葡萄酒标准实际上是参考OIV的葡萄酒标准制定，跟国际接轨20年了。比如，防腐剂就是二氧化硫，用于防腐、抗氧化。这是世界通用的。”
(JV-受访人3)

"The chateau follows European codex, zero additives and preservatives for wines. "
(JV-Interviewee 2)

“使用法国的酿酒辅料。”
(JV-受访人4)

“葡萄酒酿造不是高科技，基本不涉及知识产权的问题。”
(JV-受访人3)

“不涉及技术转移和知识产权的冲突。因为公司既然是合资的，外方引进技术也是为他们服务的。而且葡萄酒行业没有什么专利可言，不是什么高精尖的研究，只要各自在各自的环境下找到了所选择的葡萄品种和酿酒方式的平衡，就可以酿出好酒。”
(JV-受访人4)

Chinese wine firms improve awareness on staff training through the collaboration with foreign wine affiliates.

“外方董事关切员工培训的方案、计划，中外董事们在董事会层面研究和通过员工培训计划。中方董事中代表公司管理层和员工的董事是执行董事，负责组织实施。”
(JV-受访人1)

“外方在产品质量方面是主导决策的。董事会有个规定，中方的人员每两年必须到国外去学习一次，直接提的要求，列入条文。所以，公司会派员工到国外比如澳大利亚的葡萄酒企学习。外籍酿酒师给本地员工上培训课。”
(JV-受访人3)

From 1998, the Chinese wine industry started to use international standards. The current wine-related standards in China were set by referencing OIV wine standards. For example, the preservative for winemaking is sulfur dioxide as an antioxidant. This is the same as how all wine-producing countries do.
(JV-Interviewee 3)

The company uses winemaking auxiliary materials that produced in France.
(JV-Interviewee 4)

Winemaking is not hi-tech and does not refer to IP.
(JV-Interviewee 3)

There is no conflict between technology transfer and IP in the JV. Because this is a JV, foreign investors brought in technology according to their interest and benefit. Further, winemaking is not high-tech and there is no patent about it. As long as winemakers find out the balance between wine grape and brewing method, they can make good wine.
(JV-Interviewee 4)

Foreign directors pay attention to staff training, so employee training plan is one of the discussion topics at the board meetings for director's discussion and approval. Chinese executive directors organise and implement training plans.
(JV-Interviewee 1)

Foreign investors dominated wine quality management. foreign directors suggested the board of directors to set a rule that the company should send Chinese staff to study overseas every two years. Thus, local staff was sent to wineries in Australia for training. Foreign winemakers engaged in local staff training.
(JV-Interviewee 3)

Appendix 5.4-1 (Continued)

“员工培训有四种方式，第一，聘请外籍技术顾问到酒庄指导工作，中国员工边工作边学习。交流会上，酒庄技术人员向顾问们咨询生产中遇到的问题；外籍顾问给我们介绍目前最新研究成果，或者为酒庄员工系统地总结某一方面的知识。第二，酒庄组织人员去法国参加设备展，学习带有最新科技、最新理念的设备，以及怎么使用。参展之后又去酒庄参观、学习。第三，老员工带新员工，在工作中交流、培训。第四，公司组织培训包括品酒和车间操作规范。”
(JV-受访人4)

"Chinese general manager is responsible for formal training sessions. Foreign winemaker teaches local staff while working together during harvest, post-fermentation and blending sessions. He posts his philosophy in winegrowing, winemaking and marketing on WeChat so people around can learn."
(JV-Interviewee 2)

“外国专家带来先进的理念和技术，中方团队提供本地知识，双方展开新的尝试，提高技能。”

“相应的记录来证明培训完成。”
(JV-受访人4)

Chinese wine firms obtained apply resources, skill, knowledge and experience on foreign wine trade from foreign wine affiliates.

“优势互补。比如法方在国外市场有销售渠道、技术、比较前沿的国际视野、多年的行业从业经验；中方提供土地、人员、资金。”
(JV-受访人4)

"I am responsible for improving wine quality, strategy and the whole concept of going global for the chateau. I fully charge from the grape to consumer, targeting Europe first, specially England. I do everything regarding marketing including labels, distribution and strategies, to make sure getting competitive products, marketing and selling them successfully in Europe."
(JV-Interviewee 2)

There were four kinds of staff training programmes. First, the company invited foreign winemaking technology consultants to work with local staff while the latter learning from them. At company seminars, local employees and foreign consultants discussed problems happened during production; foreign consultants introduced the latest R&D information in the international wine industry or systematically lectured about some specific knowledge. Second, the company organised Chinese staff to attend exhibitions of wine production equipment in France where staff members learned how to use those machines with new technologies and ideas. Then, employees also visited foreign wineries. Third, senior staff members taught new employees while working. Last, the company also provided staff training about wine tasting and brewing shop operation standards.
(JV-Interviewee 4)

Foreign experts bring in advanced technology and idea. Chinese professionals contribute local knowledge. The two sides co-work to experiment and improve competence.

All trainings keep videos, photos and documents.
(JV-Interviewee 4)

Chinese and foreign investors have complementary advantages for each other. For example, French investors can bring in distribution channels in foreign markets, mature technology, international vision and professional experience in the wine industry. Chinese investor can provide land, staff and capital.
(JV-Interviewee 4)

Appendix 5.4-1 (Continued)

“国内市场由代表公司管理层和员工股权的董事们作为执行董事过问市场开拓。外方股东是财务投资者，通过委派董事在董事会层面发挥作用。除此之外，外方没有参与具体的日常管理。最多就是意大利的股东在美国有很强的销售渠道，他把他在美国的经销商作为外方股东的资源介绍给了公司，但他没有这个义务。”

(JV-受访人1)

“意大利的股东用专机把他美国的经销商、媒体、记者，大概30个人介绍到中国来，我们公司也接触了，当然合作需要一些过程。”

(JV-受访人1)

Foreign investors are responsible for foreign markets through their networks.

(JV-Interviewee 2)

“国外市场开拓是外国人负责。”

(JV-受访人3)

“开拓法国市场方面，法方负责在法国的宣传和销售。中方需要按照法国海关对进口葡萄酒的要求，以及中国海关对出口葡萄酒的要求，提供资质证书包括原产地证、卫生证，以及针对出口产品的检查、化验。”

(JV-受访人4)

“中方更尊重外方的销售建议，采取的是直销模式，跟国外葡萄酒销售模式比较接近，整体加价率不高。”

(JV-受访人3)

“公司中外投资双方的想法是一致的。酒庄最核心的任务把酒的品质做好。酒庄没有把资金投入去打广告，找经销商，而是投入到生产。投资双方都相信只要酒足够好，自然会有人找上门来买。事实证明有很长一段时间，该酒庄没有销售队伍，只有库房和收银员，不需要外出到各地做活动，酒也能卖掉。就是因为时间长了，口碑做起来了。十多年来一直很低调的把酒做好，自然会有人看到它的价值。”

(JV-受访人4)

Chinese executive directors engage in market development domestically and internationally. Foreign investors as financial investors assign directors to participate in corporate governance together with Chinese directors through the board of directors. Foreign directors do not have an obligation to be involved in the JV's daily management, though Italian investor introduced its American distributors as foreign director's resource to the JV.

(JV-Interviewee 1)

The Italian investor flew about 30 visitors including his American distributors, media, journalists to China to visit our company. We met and talked about possible collaborations, and we are still open to discuss some mutual interests.

(JV-Interviewee 1)

Foreign investors were responsible for markets overseas.

(JV-Interviewee 3)

In terms of overseas market, French investors take charges of marketing promotion and sales. Chinese team is responsible for preparing documents according to the requirements of the French and Chinese customs including certificate of origin, sanitary certificate and all kinds of examinations and laboratory tests.

(JV-Interviewee 4)

With foreign investors' opinions, the JV adopts direct selling business mode with less mark-ups which is similar as wine selling mode in foreign countries.

(JV-Interviewee 3)

Chinese and foreign investors both think that the chateau's core task is to focus on wine's quality. That is why the JV only invests money on production instead of advertisement or distributors. Both sides believe that if the wine's quality is good enough, buyers will come along. It is proved that for quite a long time, the JV did not have a sales team and did not go out for attending many promotion events; only with callers and cashiers, the JV has sold out all the inventories. This is all about reputation for quality. The JV has already done in this mode for over ten years, and people have started to see its value.

(JV-Interviewee 4)

Appendix 5.4-1 (Continued)

Adaptation: (Construct 2)

Chinese and foreign investors collaborate to govern the JV via the board of directors.

“外方董事是财务投资者，通过委派董事在董事会层面发挥作用，通过董事会来管理公司。除此之外，他们没有往下伸手。”

“董事会决策的只是重大事项。他们很会利用在董事会占有的席位的影响来代表股东利益，从而推动公司形成好的法人治理结构。”
(JV-受访者1)

“政府控股，但是董事会管理，虽然外资是小股东，但也有表决权。”
(JV-受访者3)

“中法双方会就公司的发展方向等重大议题进行共同协商，比如酒庄发展什么葡萄品种，是否更换葡萄品种。但中方是大股东，所以战略性决策的最终决定权在中方，但中方会慎重参考外方的意见，毕竟外方作为法国的葡萄酒销售商，市场经验更丰富。”

“法国投资方在董事会层面参与对企业发展方向的决策，比如在品质、生产，以及对于生产这方面的长远的发展方面管理，并不直接参与企业日常运作的管理。”
(JV-受访者4)

Mutual concern, respect and learni “中外投资双方之间有文化差异，但不会影响董事会决策。大家经历了十几年的磨合，研究对方的关切。外方董事都很敬佩中方董事和管理层，因为他们做不到这么好的业绩，他们在向中方学习。”
(JV-受访者1)

"We have different mentalities and different way of thinking. The best way to solve it is to respect each other, listen to each other and learn from each other."
(JV-Interviewee 2)

Foreign investors are financial investors. They assign directors to government the company by attending the board of directors. They do not participate in management of daily operation. The board of directors only discuss and decide significant corporate issues.

Foreign directors are good at taking advantage of voting right to represent the interest of shareholders, and as such facilitate the establishment of a good corporate governance structure for the JV.
(JV-Interviewee 1)

Local government is the controlling shareholder. The JV is governed by the board of directors. Foreign investor is smaller shareholder but has voting right.
(JV-Interviewee 3)

The Chinese and French investors of the company co-worked to discuss major issues over business directions such as wine grape varieties. The Chinese investors owned bigger shares and so held a power to make final decisions. However, they still carefully considered foreign investors' opinions, because after all foreign investors were French wine distributors with rich experience in wine marketing and sales.

French investors via board of directors discuss and decide the JV's development strategies in terms of wine quality, production, development direction. They do not directly participate in the management of company's daily operation.
(JV-Interviewee 4)

There is a cultural difference between Chinese and foreign investors, but it does not really affect negatively too much on the board's decision. By co-working for more than ten years, Chinese and foreign investors understand each other's concerns. Foreign directors admire and respect Chinese directors and management with their sales accomplishment, because it is hard for foreign directors to achieve this and they are studying the Chinese style.
(JV-Interviewee 1)

Appendix 5.4-1 (Continued)

	<p>“外国人的思维、沟通、处理方式和中国人不一样；外国人更加直接 (straight and direct) while 中国更讲究关系、人情和面子 (networks, humanity and ‘face’ (honour))。中外合资和外资独资公司，都应该融入当地，所以中西文化的差异并不影响工作。”</p> <p>“管理理念上，外方的原则性很强，如果牵扯到质量问题，原则上他们不让步，比如葡萄质量不过关，价格低也不买。中国人基本上是抱着学习的态度跟他们交流技术，学习他们对产品品质的坚持。”</p> <p>(JV-受访者3)</p>	<p>Foreigners' way of thinking, communicating and acting are different from Chinese style. The former tends to be more straight and direct while the latter more looks at networks, humanity and ‘face’ (honour). Nevertheless, no matter Sino-foreign JVs or wholly foreign-owned companies, they should localise themselves to avoid the business from being affected by the cultural difference between the West and the East.</p> <p>Foreign investors had strong principle. If anything was involved in wine quality, they never compromised. For example, they never bought low-quality wine grape even the price was low. Chinese investors and staff basically communicated with them about technology and their insistence on the quality of wine, always with an attitude of wanting to learn.</p> <p>(JV-Interviewee 3)</p>
Internal co-ordination at the board level	<p>“关于企业与当地政府合作时体现的文化差异，外籍董事通常只是在购买公司股权的时候，跟政府打交道。并购之后，他们平时没有机会，也不需要跟政府打交道。……中方股东为大股东。……而且公司管理层和员工是执行股东，如果公司需要与政府打交道的时候，外方董事的观点和方式不适合中国国情，根本不适合用于跟政府沟通，董事们会在董事会决策的过程中进行内部沟通和协调，并去掉差异化的部分。”</p> <p>(JV-受访者1)</p>	<p>The cultural difference between the East and the West basically does not affect the JV whose Chinese investors are controlling shareholders when dealing with the local government. The reason being that first, only time that foreign directors need to deal with the local government is when they purchased the JV's share. After that they barely have chance and nearly do not need to contact the local government. Second, Chinese directors are controlling shareholders; executive directors are Chinese and represent the interest of management and normal staff. Hence, when the JV needs to deal with the local government, if foreign directors' views and approaches do not fit in China's realities, Chinese directors will communicate with their counterparts and co-ordinate any disagreement internally at the board meetings.</p> <p>(JV-Interviewee 1)</p>
Foreign investors agree JVs to adopt Chinese management style for dealing with local government and other business partners in China.	<p>“关于企业与当地政府合作时体现的文化差异，外籍董事通常只是在购买公司股权的时候，跟政府打交道。并购之后，他们平时没有机会，也不需要跟政府打交道。……中方股东为大股东。……而且公司管理层和员工是执行股东，如果公司需要与政府打交道的时候，外方董事的观点和方式不适合中国国情，根本不适合用于跟政府沟通，董事们会在董事会决策的过程中进行内部沟通和协调，并去掉差异化的部分。”</p> <p>“外方不参与公司具体的日常管理，管理层都是中国人，所以企业与当地供应链中其他合作企业之间没有文化差异。”</p> <p>(JV-受访者1)</p>	<p>The cultural difference between the East and the West basically does not affect the JV whose Chinese investors are controlling shareholders when dealing with the local government. The reason being that first, only time that foreign directors need to deal with the local government is when they purchased the JV's share. After that they barely have chance and nearly do not need to contact the local government. Second, Chinese directors are controlling shareholders; executive directors are Chinese and represent the interest of management and normal staff. Hence, when the JV needs to deal with the local government, if foreign directors' views and approaches do not fit in China's realities, Chinese directors will communicate with their counterparts and co-ordinate any disagreement internally at the board meetings.</p> <p>The collaboration between the Sino-foreign JV (where Chinese investors are controlling shareholders) and its local business partners does not reflect obvious cultural differences, because management members are all Chinese and foreign directors do not engage in JV's daily operation.</p> <p>(JV-Interviewee 1)</p>

Appendix 5.4-1 (Continued)

	<p>“合资的优势之一是企业可以通过中国投资方来跟当地政府打交道，因为外国投资方不了解中国的人情世故、思维和处事方式，所以他们一般不负责与政府有关的业务。那么，企业与当地政府合作时不体现的文化差异。”</p> <p>“都是中方直接与当地供应链中其他合作企业沟通，所以企业与当地供应链中其他合作企业之间的不存在文化差异。”</p> <p>(JV-受访人4)</p>	<p>There is no cultural difference in the collaboration between the JV and the local government, because Chinese team is responsible for government affairs. One advantage of Sino-foreign JVs is that foreign investor can have its Chinese business partner to deal with government issues and does not need to worry about a lack of understanding the Chinese code of conduct, as well as thinking and acting ways.</p> <p>There is no cultural difference between the JV and collaborative companies in the local supply chain because it is always the Chinese team to work with local business partners.</p> <p>(JV-Interviewee 4)</p>
Full communication	<p>“中外葡萄酒营销模式不同，国外是酒企直销，酒企的加价率很小，但中国大部分酒企采取的是经销商模式，中间代理环节的加价率比较高，抬高了终端售价。企业外方对此不太理解，但用外国的直销模式在中国市场很难销售。这需要中方的不断沟通。”</p> <p>(JV-受访人3)</p>	<p>China has different marketing mode from foreign countries. In foreign countries, wine firms tend to adapt direct selling with less mark-ups while in China, most wine companies choose merchant model which raises terminal prices due to relatively high mark-ups happened at agencies in the middle. The foreign investors did not quite understand and accept the Chinese wine sales model, though the foreign direct selling did not work well in China. This needed a lot of efforts for Chinese staff to communicate.</p> <p>(JV-Interviewee 3)</p>
A clear division of work between foreign and Chinese staff	<p>“因为分工明确，中外投资双方不会有绝对的冲突。分歧最大的，可能就是对于企业的改革，比如法方认为某些品种不适合，要及时更换、改进，但是中方实施的时候并不是像法方想象的那么顺利和高效，或者会有不同意见。因为法方提出问题的时候，他们并不能完全了解酒庄在实际操作中面临的状况，所以在细节上需要沟通再决定，比如更换品种是否会带来什么问题，酒庄是否有能力应付等。”</p> <p>(JV-受访人4)</p>	<p>There are no absolute cultural conflicts between the Chinese and foreign investors because they have a clear division of work. However, two sides might have different opinions about business reform. For instance, the French investors think that it needs to change some grape varieties, but it does not carry out as efficiently and smoothly as how they imagine when the Chinese team implements the idea. Then the two sides will have communications back and forth, because the foreign investors might not fully understand the practical difficulties and the Chinese team needs to discuss with them about problems caused by changing grape varieties and JV's coping ability.</p> <p>(JV-Interviewee 4)</p>

Appendix 5.4-1 (Continued)

Chinese investors in some JVs agree to adopt foreign wine firm's direct sales mode for wine branding in China.

“开拓中国市场是中国人负责，但是公司的销售，中方更尊重外方的意见。国外市场开拓是外国人负责。公司的整体加价率不高，而且采取的是直销模式，跟老外的营销模式比较接近。”
(JV-受访人3)

“酒庄没有把资金投入打广告，找经销商，而是投入到生产。投资双方都相信只要酒足够好，自然会有人找上门来买。事实证明有很长一段时间，该酒庄没有销售队伍，只有库房和收银员，不需要外出到各地做活动，酒也能卖掉。”
(JV-受访人4)

Joint development: (Construct 3. Amelioration)

Chinese and foreign staff both improve competences by conducting experiments together.

“当中外酿酒师在酿酒理念上产生分歧，公司鼓励探讨并提供实践设备，用实验结果来化解分歧。”
(JV-受访人1)

“中国酿酒师会把按照外籍顾问方案酿造的葡萄酒和完全按照自己的方案酿造的葡萄酒进行对比，从而剔除不太适合本地情况的部分，和沿用适合的部分。”
(JV-受访人4)

Although Chinese staff took charge of developing the Chinese market, the JV adopts direct selling mode with less mark-ups by respecting foreign investor's opinions. Foreign investors are responsible for markets overseas.
(JV-Interviewee 3)

The JV only invests money on production instead of advertisement or distributors. Both foreign and Chinese investors believe that if the wine's quality is good enough, buyers will come along. It is proved that for quite a long time, the JV did not have sales team and did not go out for attending too many promotion events; only with callers and cashiers, the JV has sold out all the inventories. This is all about reputation for quality. The JV has already done in this mode for over ten years, and people have started to see its value.
(JV-Interviewee 4)

When there is a different opinion between Chinese and foreign wine-makers, the company encourages them to discuss and experiment to find out the answer.
(JV-Interviewee 1)

Chinese winemakers compare the wines that brewed according to their own plans and the wines that they brewed following foreign consultants' solutions. Then they pick up the most applicable solution.
(JV-Interviewee 4)

Appendix 5.4-2 Representative quotations underlying second-order themes for the leverage of foreign O_F-specific advantages, resources and capabilities via non-equity linkages

Representative quotations underlying second-order themes for O _F leverage via non-equity-based linkage		
Application: (Construct 1)	(Original quotations in Chinese & English)	(English translation)
Local Chinese suppliers apply resources, standards, technology, skills and techniques, knowledge, experience and management concept from Sino-foreign wine JVs and wholly foreign-owned wine affiliates regarding product design, production and management.	"The chateau printed the first round of label in Germany to set the quality standard for later domestic label printing." (JV-Interviewee 2)	
	“寻找当地的瓶子厂，给他们提供勃艮第瓶型、波尔多瓶型的样品，通过沟通、商量请当地厂商做模具和生产。同样地，外方也会就软木塞和酒标跟当地供应商沟通。通过外方的介绍，一家法国的供应商到中国建厂，为该酒企以及其它当地企业生产食品级的二氧化碳。这提高了本地葡萄酒产业链的供应能力。” (JV-受访者3)	JV3 communicated with local suppliers such as wine bottle, cork and wine label providers about the JV's requirements. For example, JV3 discussed with local glass manufacturers about mould-making and production by providing samples of Burgundy bottle and Bordeaux bottle. Another example is that in order to meet the JV's production demand, a French food-grade carbon dioxide manufacturer built a factory in China. These facilitated the supply capability of local wine industrial chain. (JV-Interviewee 3)
	“给葡萄供应商提供技术支持，指导他们管理葡萄园。” (WFO-受访者1)	WFO1 provides technology support and vineyard management experience to wine grape suppliers. (WFO-Interviewee 1)
	“1. 根据我们的要求，葡萄供应商加强品质内控，比如使用我们针对葡萄种植、葡萄园土壤、葡萄园管理方面提供信息和技术建议，并跟踪管理，以及满足我们对葡萄采摘提出要求，从而确保葡萄质量达到要求。（但不提供葡萄植株、设备、融资）。”	Wine grape suppliers strengthened their quality control systems according to WFO's requirements. They applied information and technology suggestion provided by the WFO regarding grape-growing, vineyard soil and vineyard management, paid special attention towards grape harvest, and implement track management, in order to ensure grape quality. (However, WFO2 does not offer help to suppliers with seedling, equipment and finance.)
	“给本地纸盒厂供应商，提供一些设计和标准。”	
	“给酒标设计供应商提供行业标准。” (WFO-受访者2)	WFO2 provides design plans and standards for local carton suppliers.
	“对于贴牌公司，我们提供技术和原辅料。教授他们怎么操作机器，怎么控制温度和时间。” (WFO-受访者1)	WFO2 provides local design firm with industrial standards for wine label design. (WFO-Interviewee 2)
	“酒庄提供样品说明特定的颜色和材质。” (S-受访者10)	We provides OEM partners with technology, enological excipients and wine grape. We also teach OEM partners how to operate equipment and how to control temperature and time. (WFO-Interviewee 1)
		Wineries provide samples to explain specific colour and materials they want. (S-Interviewee 10)

Appendix 5.4-2 (Continued)

“外资酒庄会给标签印刷供应商提供国外的参考样本。”

“外资葡萄酒企业会给中国本土的酒标印刷供应商提供酒标印刷方面的经验和知识。比如，外资葡萄酒企业会给中国本土的酒标印刷供应商介绍他们在国外正在使用的酒标印刷材料，并提供样品以做测试和对比中国的材料。这样帮助中国本土酒标印刷供应商开拓眼界，并了解了耐冰桶的防水性能和烫金性能更好的酒标材料。”

(S-受访者11)

“与葡萄酒企业合作的时候，企业客户有时会提供样瓶，为生产供应商的技术部门画图提供参考。”

(S-受访者13)

“中外合资葡萄酒企业和国际知名品牌在华的外资葡萄酒企业都有完善管理体系。他们会给中国本地的如木塞供应商提供企业的内控标准，让后者按照他们的质量标准，例如外观、尺寸、级别等参数来供货。”

(S-受访者15)

“外资葡萄酒企业的人性化管理对我的管理风格产生了一定积极影响。我把这种管理方式运用到企业中，给员工提供开心和激励的工作环境，灵活的办公模式，提高员工的福利、出差待遇，让员工获得尊重感和自豪感。”

(S-受访者9)

“外资企业给工人提供的设备比如自动剪枝机能让工人更加方便、轻松的工作。”

“外资企业的决定、要求和交货期相对来说比较清晰。”

“外资葡萄酒企业对中国本土葡萄酒企业的示范作用体现在让后者学习他们的葡萄园管理、酿酒的经验 and 耐心。”

(S-受访者2)

“外资企业使用酿酒设备之前的准备工作做得比较好，比如做好计划和购买备件。”

(S-受访者3)

Wholly foreign-owned chateaus provide wine label samples from overseas to Supplier 11.

Wholly foreign-owned chateaus introduce knowledge and experience about wine label to Supplier 11. For example, a wholly foreign-owned chateau brought a wine label material that they used overseas to let Supplier 11 conduct a label ice bucket test and comparison with China's label materials. Through the test, Supplier 11 broadened its horizon and found out a label material with a good waterproof performance and bronzing performance can pass ice bucket test.

(S-Interviewee 11)

Wine companies provide bottle samples for the technique department of Supplier 13 to draw a sketch.

(S-Interviewee 13)

Sino-foreign JV wine companies and wholly foreign-owned wine branches of famous international wine companies have complete management systems. They provide their internal quality control standards such as parameters for cork's appearance, size and quality grade for the supplier to source products.

(S-Interviewee 15)

The people-oriented management of wholly foreign-owned wine companies has a positive impact on my management style. I applied it to my firm to provide my employees with a friendly and motivational work environment and flexible "office" mode, as well as increase staff welfare and business traveling expenses. All these have made my employees feel a sense of being respected and a sense of proud.

(S-Interviewee 9)

Wholly foreign-owned wine companies create a convenient and safe work environment for their vineyard workers by providing automatic pruning machines.

Wholly foreign-owned wine companies have clear decisions, requirements and delivery dates when doing business with Supplier 2.

Wholly foreign-owned wine companies demonstrate their experienced vineyard management, winemaking expertise and patience.

(S-Interviewee 2)

Wholly foreign-owned wine companies have a full preparation for winemaking equipment usage.

(S-Interviewee 3)

Appendix 5.4-2 (Continued)

“从商业角度考虑的话，外资企业按合同操作，更规范一点，比如遵守回款日期，先付款后发货。”

“外资葡萄酒企业对企业的发展有长远规划，并没有把在中国投资葡萄酒生产企业当作是一项投机生意，期望快速回本和盈利。”
(S-受访者6)

“外资葡萄酒企业对供应商的态度一般很客气。外企习惯按照合同办事，合同很详细，包括了一切可预计的情况，很周到，所以虽然程序繁琐、负责啊，但保障性比较好。这种契约精神可能是国内企业需要向他们学习的，是一个规范化的过程。”

“辅料供应商给企业提供产品做实验，外资产管理具有严格性和规范性，员工对于一些细节包括在实验和做记录等方面的认真度比较高，最后把实验结果分享给供应商，并且反馈信息的完整度高。”
(S-受访者9)

“国企比外资手续要多一些，需要走很多部门，很麻烦。比如每年都为了一些合同条款包括账期的事情反复商榷。然后审批的流程比较多。相比之下，外资审批就是走法务部和总经理。”
(S-受访者13)

“听说知名的外资葡萄酒企业行事严谨，想要成为他们的供应商要经过比较严格的审核程序，但一旦建立了合作关系，都按合同办事、按合同规定日期结款，外资企业的信誉一般都很好。相比之下，有些本地酒庄不讲究信用，不按合同办事，不按期结款。第二，外资的计划性比较强，包括全年的计划都做得很强，供应商完全有时间把工作操作完，不像国内的酒企着急得恨不得今天打款明天早上要货的。”
(S-受访者14)

“外资和中外合资酒企的管理比较完善，正规。比如对合同的确认，合同的完整程度，图案的确认，付款方式/信誉都非常好/诚信，付款及时，计划性特别强。中国本地软木塞供应商喜欢和外企企业及合资企业打交道，比较放心。相比之下，国内很多中小型酒企没有计划性，今天下单就希望今天到货，或者明天到货；不遵守付款约定时间；没有正规程序，不定制合同，也不重视合同。”
(S-受访者15)

From commercial perspective, wholly foreign-owned wine companies do business following contracts.

Wholly foreign-owned wine enterprises normally have a long-term development plan. They do not see wine business as a speculation to earn quick money.
(S-Interviewee 6)

Wholly foreign-owned wine enterprises are friendly to Supplier 9. They do business following contracts where nearly all possible situation and results are recorded in detail. It feels thoughtful, tedious and guaranteed.

Supplier 9 provides samples of winemaking auxiliary materials to wineries for experiments. Employees from wholly foreign-owned foreign wine companies, with rigorous management, carefully record experiment data and share all analysis results with Supplier 9.
(S-Interviewee 9)

State-owned wine companies have more complex process and more procedures to approve business deals. For example, it needs to discuss and negotiate contracts every year regarding payment date and other terms. By contrast, wholly foreign-owned wine companies normally process contracts through their law departments and general managers.
(S-Interviewee 13)

It is said that to become a supplier for wholly foreign-owned wine enterprises, it needs to go through a rigorous inspection process. Once the collaboration is built, all businesses follow contracts. Wholly foreign-owned wine enterprises have good credibility and issue payment on time. By contrast, some local wineries do not care credibility, do not follow contract to do business and delay payments. Furthermore, wholly foreign-owned wine companies have production plans in advance for the next whole year, so suppliers have enough time to prepare goods. However, some local wineries tend to pay bills today and get goods tomorrow morning, which makes suppliers even do not have time to source goods and arrange delivery.
(S-Interviewee 14)

Wholly foreign-owned wine firms and Sino-foreign wine JVs have systematic management and operate business following contracts and formal process. For example, these companies have complete business plans, formal contracts and good business credibility. They confirm contracts and product specifications with Supplier 15 carefully. They issue payment on time. Supplier 15 feel safe to do business with these companies. By contrast, many Chinese small-scaled wineries do not have formal contracts and do not care about contracts. For instance, some place orders today and want corks to be delivered today or tomorrow; they do not issue payment on time.
(S-Interviewee 15)

Appendix 5.4-2 (Continued)

“与外资葡萄酒企业的合作，使得本土酒标印刷供应商有机会测试和对比中外多种不同的酒标材料，从而学习到了不同材料的优缺点，积累了经验。”

“通过与外国葡萄酒企的合作，使得中国本地酒标印刷供应商积累了国内同行没有的经验，比如葡萄酒标的冰桶测试经验。并且了解了酒标的耐冰桶的工艺，以及红葡萄酒和白葡萄酒酒标对于耐冰桶测试的不同标准。目前中国本土的葡萄酒企业大多不重视对酒标的耐冰桶测试，所以在此之前，该酒标供应商根本没有机会接触过类似技术。”
(S-受访人11)

“从货款结算方面来比较，外资葡萄酒企业讲信誉，账期到了就结款。”

“外资企业考虑更多的是体系的永续经营和稳定性，品牌，做事情的准则。”
(S-受访人11)

“外资葡萄酒企业把国外的标准提供给中国当地如木塞供应商，后者按照客户的要求供货。这对于本地供应商是学习和积累经验的机会。通过合作，中国本地木塞供应商得以提高供应实力，改善工艺，提高产品质量，学习到对于某种葡萄酒或者是葡萄酒瓶应该使用什么样的软木塞。”
(S-受访人15)

“与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之五是：促进技术进步。首先，知名外资葡萄酒企业更愿意为优质的、体现品牌品味的礼盒包装支付较高价格。为了争取订单和扩大市场份额，中国本土的礼盒包装生产和供应商会投入研发费用，争取实现技术上创新和攻坚。其次，外资葡萄酒企业会开放地介绍礼品包装的打样顾问与量产商认识，促进沟通。”
(S-受访人12-2)

Through the collaboration with wholly foreign-owned wine enterprises, Supplier 11 has chances to test and compare different wine label materials from China and overseas, and learn their pros and cons.

Through the collaboration with wholly foreign-owned wine enterprises, supplier accumulates experience of wine label ice bucket test which other Chinese label print houses do not have. Supplier 11 also learns about the technique of wine labels that can pass ice bucket test, and different test standards of labels for red and white wines. Currently, most Chinese wineries still do not pay attention to wine label's ice bucket test, so most Chinese print houses rarely have a chance to know this technique.
(S-Interviewee 11)

Wholly foreign-owned wine enterprises have good credibility and issue payments on time.

Wholly foreign-owned wine enterprises more consider business sustainability and stability, brand and principle.
(S-Interviewee 11)

Wholly foreign-owned wine companies provide foreign standards of corks to Supplier 15, which helps Supplier 15 study and accumulate experience. Through the collaboration, Supplier 15 improves its techniques, product quality and supply ability. Also, the supplier's employees learn how to choose corks with wines and wine bottles.
(S-Interviewee 15)

The collaboration with the wholly foreign-owned wine enterprise helps Supplier 12 improve its techniques. First, the famous wholly foreign-owned wine enterprise is willing to pay relatively high prices for quality packages. In order to get the order, Supplier 12 invests in R&D to innovate. Second, the wholly foreign-owned wine enterprise is open to introduce their package proofing consultants to Supplier 12 for communication.
(S-Interviewee 12-2)

Appendix 5.4-2 (Continued)

Local Chinese suppliers take advantage of high market impact of Sino-foreign wine JVs and wholly foreign-owned wine firms.

“酒庄对我们的帮助主要体现销售，他们觉得我们的产品质量好，会口口相传。”

“外资酒企的成单率高，沟通成本低，对我的营销有品牌影响。因为知名外企都用了我代理的产品，有助于我的营销战略。”
(S-受访者1)

“与外资酒庄合作从间接的角度对供应商的产品起到宣传作用。比如供应商可以向其他客户宣传说某某知名外资企业也使用了该品牌的橡木桶或者软木塞。”
(S-受访者4)

“与中外合资酒庄的合作对供应商来说好处就是口碑，我经常碰到地情况就是客户帮我推荐客户。”
(S-受访者5)

“与中外合资葡萄酒企业合作给该酒标设计供应商带来的影响是为公司增加了一个宣传案例，带来了品牌效应。”
(S-受访者10)

“与外资葡萄酒企业的合作，为中国本地酒标印刷供应商在业界带来了知名度，很多葡萄酒企业慕名而来合作。”
(S-受访者11)

“与国内知名企业包括中外合资、外资、国企葡萄酒企业合作，为该葡萄酒瓶子供应商带来了广告效应；同时由于产品优质，该供应商在中国葡萄酒行业内有这很高的口碑。”
(S-受访者13)

Wineries customers recommend Supplier 1 to other wineries when they acknowledge products delivered by Supplier 1.

Wholly foreign-owned wine enterprises buy more equipment and barrels from Supplier 1. The communication cost is relatively low. The collaboration with well-known foreign wine enterprises helps Supplier 1 advertise its business and expand its brand impact.
(S-Interviewee 1)

The collaboration with wholly foreign-owned wine companies indirectly helps Supplier 4 advertise its products. Supplier 4 can promote its oak barrels and corks by saying that some famous international wine companies are using these products.
(S-Interviewee 8)

The collaboration with Sino-foreign wine JVs helps Supplier 5 to promote its reputation in the industry. It is very often that new customers come to Supplier 5 because of word of mouth by existing customers.
(S-Interviewee 5)

The collaborations with Sino-foreign JV wine companies resulted in successfully designed wine labels which satisfied customers. These achievements bring in a brand effect and facilitate the improvement of Supplier 10's reputation.
(S-Interviewee 10)

The collaboration with wholly foreign-owned wine enterprises helps build and expand Supplier 11's reputation which brings more winery customers.
(S-Interviewee 11)

The collaborations with famous Sino-foreign JV wine enterprises and wholly foreign-owned wine enterprises cause advertisement effect for Supplier 13. Along with quality products, Supplier 13 enjoys a very high reputation in the Chinese wine industry.
(S-Interviewee 13)

Appendix 5.4-2 (Continued)

Local Chinese suppliers improve and apply awareness of product quality, cognition of CSR, staff working attitude, aesthetics and package design concept through collaborations with wholly foreign-owned wine affiliates.

“过去他们只根据客户要求来做测试，客户没有测试要求的话，供应商不做测试。但现在即使客户不要求，我们也会做基础的常规测试，比如对于盒子功能性的测试；然后根据客户的特别要求做一些相关测试。这对于中国本土礼盒包装生产和供应商来说，虽然增加了成本，但是一个学习和进步的过程。供应商意识到这样可以最大限度地保证产品不出现功能性问题，因为没有做这些测试，一旦交货后出现问题，这个成本最终还是要付出的。倒不如通过测试，提前采取措施最大限度避免风险。”

(S-受访者12-1)

“相对于国内企业而言外企对质量要求更高些。也对质量体系要求严格一些。对我们公司的质量体系的建立有一定促进作用。”

(S-受访者13)

“与外资葡萄酒企业和中外合资葡萄酒企业的合作有助于提升中国本土软木塞供应商的质量意识和经营理念。”

(S-受访者15)

“与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之二是：我们意识到国际知名品牌企业特别注重企业的社会责任，包括他们的代工厂在内，如果产品质量或者强迫劳动等事故被曝光，是对企业信誉的巨大损失。所以现在我们也非常在意对我们的外包企业的社会责任，特别是环境保护、产品质量的审查。”

(S-受访者12-1)

“与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之三是：对做事的严谨性的提高。比如一些常规的测试要求等，以前我们觉得只要满足就好，或者他没发现的我们做得差不多就可以了，但现在我们是越来越认为一定要做到，甚至超过他们的标准。我觉得这是企业和人员素质和思想意识的转变。”

(S-受访者12-1)

“外资葡萄酒企业对于酒标的理念和审美观，给中国本土酒标印刷供应商带来了启发。比如，设计简单的酒标也可以体现高档气质，而中国大多数葡萄酒酒标在设计和用色方面显得土气。”

(S-受访者11)

Before if customers did not request function tests, we did not conduct tests for them. Now we arrange a routine test for all products with their functions even customers do not request. This increases our cost, but creates a chance for us to study, as well as ensure the quality as much as possible. We realise that if there was any quality problem found after shipment, we will still need to take the responsibility. Hence, it is better to find out the potential problem and solve it before delivery.

(S-Interviewee 12-1)

Compared to Chinese wine firms, wholly foreign-owned wine companies have stricter standards towards quality management system. The collaborations with them helps Supplier 13 build and improve its own quality management system.

(S-Interviewee 13)

The collaborations with Sino-foreign JV wine companies and wholly foreign-owned wine companies help Supplier 15 improve its management concepts and the awareness of product quality.

(S-Interviewee 15)

We realise that the internationally famous wine enterprise pays attention to CSR very much. It inspects itself and its OEMs about product quality, forced labour and working environment strictly, because any of these issues can destroy the company's reputation. Thus, now our company also pays more attention to investigating our OEMs' CSR, in particular environment protection and product quality.

(S-Interviewee 12-1)

Our employees now become more rigorous. Now we conduct function tests more strictly than before. Before we did it according to customer's request, or sometimes slightly less than being requested, but now we use our developed standards which are stricter than customer's requirements. This shows an ideological improvement.

(S-Interviewee 12-1)

Wholly foreign-owned wine enterprises shed light on Supplier 11 with their ideas of wine label design and aesthetics. For instance, foreign wine label's design is simple but can still has a classy and upmarket feel. By contrast, the design and usage of colour of most Chinese wine labels are rustic.

(S-Interviewee 11)

Appendix 5.4-2 (Continued)

Local Chinese distributors apply resource and assistance provided by Sino-foreign wine JVs/wholly foreign-owned wine firms to develop competence and distribution capability.

“与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之四是：促进设计理念和审美感的提高。虽然中国供应商在礼盒包装制作的常规工艺上不比国外差，但在礼盒包装设计的理念和审美感方面，与外资葡萄酒公司提供的国外样品相比还是有一定差距。这时候，外资葡萄酒企业给本土礼盒包装生产提供的样品，其实对后者是一种学习和开拓眼界。这种在礼盒包装的设计理念和审美能力的提高，可以使供应商更好地为今后的客户服务。”

(S-受访人12-2)

“公司指导、帮助经销商设计、布置展柜。”

“公司提供费用、人员的支持，提供一些促销、赠品，对经销商的培训，协助经销商开展品鉴会，讲解酒背后的故事、文化等，售后的客户维护，组织活动。”

(WFO-受访人1)

“酒庄举办晚宴的时候，酒庄经理会去做介绍。”

“公司每年把经销商请到酒庄来，让他们采摘葡萄、参观酿酒厂、品酒，让他们亲身感受酿造过程。”

(WFO-受访人2)

“我们提供产品支持，提供培训，销售商的QSM和针对市场推广的支持。产品支持是销售政策上的支持，比如为他们销售做活动，新年礼盒，价格优惠，品鉴会。”

(WFO-受访人3)

“售后服务体现在酒企对经销商的员工做培训，给分销商做培训，对经销商在全国各地的团队举行消费者见面会给予人力支持。培训包括酒庄的创业故事、酒庄文化、每款酒的市场方向，品尝每一款酒，让一线员工对酒的质量有一个新的感受。”

“酒庄给经销商提供市场推广费用。与我们一起参加展会，媒体推荐会等。”

“技术支持体现在向专业群体解答葡萄园一年四季的管理，从葡萄园到酒杯整个过程的差异包括用什么样的方式采摘，green harvest 的强度，发酵时用什么样的酵母及橡木桶，木桶里的陈酿时间，上市前在瓶中的陈酿时间等技术信息，经营理念。”

(D-受访人1)

The collaboration with the wholly foreign-owned wine enterprise helps us improve our package design concepts and aesthetics. Our production technique of gift boxes and packages can compete against foreign countries, but package design concepts and aesthetics are still way behind foreign countries. The package samples provided by the wholly foreign-owned wine enterprise broadened our horizon and helped us better prepare for our future customers. (S-Interviewee 12-2)

The company helps distributors design and decorate store displays.

The company assists distributors to organise wine tasting parties by providing marketing fees, freebies for promotion and training to sales staff about product knowledge. Also, WFO1 sends supportive staff to distributors' promotion events to talk about behind-scene stories and culture about wines and brands.

(WFO-Interviewee 1)

When the winery holds dinner parties at its chateau for distributors, estate manager attends and introduces products for customers.

The company invites distributors to visit their chateau every year. Distributors participate in activities such as picking grapes, visiting brewing shops and tasting wines; they can experience the process of winemaking.

(WFO-Interviewee 2)

We provide distributors with support including product, training, QSM (quantitative software management) and market promotion. For instance, according to company's sales policy, the product support means we give distributors favourable price, gift boxes and wine samples for tastings.

(WFO-Interviewee 3)

Wineries provide training for Distributor 1 and its sub-distributors. The training contents include winery story, culture, market directions and wine tasting. Through the training, front-line salespersons better understand the wine quality.

Wineries provide Distributor 1 with market promotion funding. Winery representatives work with Distributor 1 to attend wine exhibitions, media conferences and consumer clubs throughout the country.

Winery representatives work with Distributor 1 to answer wine professionals' enquiries during promotion events. Winery representatives introduce about their chateau management, referring to grape-picking, green harvest, the usage of yeasts and oak barrels, aging time in barrels and in bottles before sales, and investors' business concepts.

(D-Interviewee 1)

Appendix 5.4-2 (Continued)

	<p>“酒庄提供高品质的葡萄酒。”</p> <p>“酿酒师给经销商提供关于自酿葡萄酒产品的培训，参加经销商组织的推广活动，品鉴会，葡萄酒晚宴，拜访客户，给客户提供培训，参与经销商的市场营销的讨论并提供行业信息。”</p> <p>“参加国际化的展览如Decanter等，在现场与跟消费者、同业交流沟通。”</p> <p>“在经销商的安排下接受国内外媒体采访，配合宣传。” (D-受访者2)</p> <p>“外资酒庄提供的增值服务包括，协助经销商开展市场推广和举办品鉴会，比如，提供经费派遣外籍酿酒师向经销商和客户介绍品牌文化，酒庄历史，葡萄酒的年份、类型和特点。邀请经销商参加葡萄酒展览会，并提供差旅费。参展期间，给经销商和顾客提供葡萄酒学习和品鉴的机会。在重要客户生日或者特殊纪念日的时候送上惊喜礼品。” (D-受访者3)</p> <p>“可以给企业带来一定的关注度和销售流量。” (D-受访者1)</p>	<p>The winery supplies quality wines.</p> <p>The winemaker gives training to Distributor 2 about her wines. She attends promotion events, tastings and wine dinner parties organised by the distributor. She also visits customers and provides training, together with Distributor 2. The chateau works with Distributor 2 to discuss about marketing programmes and provides industry information.</p> <p>The winery attends international wine exhibitions such Decanter to communicate with consumers and other wine producers.</p> <p>The winery works with Distributor 2 to accept media interviews from China and overseas. (D-Interviewee 2)</p> <p>The adding-value services that a foreign winery provided for Distributor 3 included assisting the distributor to hold promotion events and tastings. For example, the foreign winery sent its foreign winemaker to visit the distributor and consumers, and introduced brand culture, winery historical story, vintage year, wine grape variety and wine's features. The foreign winery invited Distributor 3 and consumers to attend wine exhibitions overseas and provided traveling expenses. During traveling, the foreign winery organised wine study and tastings for Distributor 3 and consumers. Further, the foreign winery sent gifts to VIP customers on their birthdays or special anniversary days. (D-Interviewee 3)</p> <p>The collaboration with a wholly foreign-owned wine firm brings Distributor 1 with a certain degree of market attention and sales achievement. (D-Interviewee 1)</p> <p>As alliance partners, our company and local Chinese distributors provide wine samples to each other and take advantage of each other's distribution channels. (JV-Interviewee 1)</p> <p>The company offers wines to alliance partners; alliance partners provides promotion platforms for us. (WFO-Interviewee 1)</p>
Local Chinese alliance partners apply resource and assistance provided by Sino-foreign wine JVs/wholly foreign-owned wine firms to develop competence.	<p>“我们和当地的经销商战略合作伙伴互相提供酒的样品以及销售渠道。” (JV-受访者1)</p> <p>“公司为战略合作伙伴提供产品，他们为公司提供宣传的平台。” (WFO-受访者1)</p>	

Appendix 5.4-2 (Continued)

Adaptation: (Construct 2)

Local Chinese suppliers improve product quality, production safety, technology, package, storage condition and CSR to adapt to factory inspections from wholly foreign-owned wine firms.

“公司对本地供应商企业进行审核。可以帮助他们从品质和生产安全等方面达到国际公司的要求。”
(WFO-受访人1)

“客户验厂也是对我们的提升，包括质量、环境、社会责任。社会责任，比如，超时加班、公司福利、待遇、员工歧视、强迫劳动。其中强迫劳动是行业红线，如果企业涉及强迫员工劳动，验厂就不会通过，意味着客户不会给我们订单。客户常规验厂有两种方式：一种是委托第三方机构比如SGS，根据客户需求进行。验厂前通知工厂，说明时间、需要哪些人员配合、需要哪些资料。另一种方式是客户公司自己的相关部门，比如我们公司也会派人审核我们自己的供应商资质，包括产品质量的保证能力、交货的及时性、反映速度、服务质量等。”
(S-受访人12)

“与外资葡萄酒企业的合作要麻烦一些，因为他们要求高，比如每年都要年审，内容包括ISO9000验证、质量管理体系、生产管理体系，生产过程中的6S的，以及葡萄酒企业的相关要求。比如很久以前，中国葡萄酒行业对葡萄酒瓶的罐装要求比较低，现在为了满足外资葡萄酒企业对葡萄酒瓶的罐装要求，中国的葡萄酒瓶子生产商提高了相关技术标准，加强了瓶子的包装，以及提高了成品库的建设。”

“与知名外资品牌葡萄酒企业合作，作为合作洽谈的一环，这些外企企业会派出有外国玻璃专家的团队来审核工厂，了解企业硬件和软件的实力，审核标准。”
(S-受访人13)

“知名品牌的外资酒企在考察中国的软木塞供应商的时候，以及开始合作之后的每年都会对后者进行审核，并提出整改意见，从而帮助后者提高。”
(S-受访人15)

Local Chinese suppliers improve product quality through technological amelioration and innovation to meet stricter foreign standards.

“通过与知名中外合资葡萄酒企业合作，为了满足瓶子能够抵抗在灌装线上快速移动时候产生的摩擦，供应商改进技术，提高玻璃涂层的质量和瓶子玻璃厚薄的均匀度，加强检验力度，防止瓶身磨损或裂纹。”
(S-受访人13)

The company conducts assessment for local suppliers to help them meet international wine company's requirements about product quality and production safety.
(WFO-Interviewee 1)

Wholly foreign-owned wine firms request a factory inspection to Supplier 12 before collaboration. The inspection covers product quality, working environment and CSR. CSR includes overtime work, company welfare, employee salary, employee discrimination and forced labour; of which forced labour is the red line which means any manufacturer crossed this line will fail the factory inspection. The factory inspection helps Supplier 12 improve its competence. Through the collaboration, Supplier 12 learns about the factory inspection and starts to conduct factory inspection to its suppliers.
(S-Interviewee 12)

Wholly foreign-owned wine companies have higher requirements to Supplier 13 than other wine companies. For instance, they request an annual inspection towards suppliers and check items include quality management system (ISO9000), production management system, 6S during production and specific requirements form every different wine companies. In order to satisfy wholly foreign-owned wine companies, Supplier 13 uses higher technique standards, improves bottle's package and upgrades storage conditions.

When discussing collaborations, famous wholly foreign-owned wine enterprises sent foreign experts in areas of glass and bottle to inspect Supplier 13 with its hardware and software.
(S-Interviewee 13)

Famous foreign wine companies' branches in China conduct an inspection to Supplier 15 every year when they discussed collaborations with Supplier 15 and during collaboration. Through the inspection, wholly foreign-owned wine companies provide solutions for Supplier 15 to improve.
(S-Interviewee 15)

A Sino-foreign JV wine enterprise has high effective bottling lines which request bottles with better anti-wear performance. Supplier 13 improves its techniques and inspection to avoid bottles from being worn and cracked.
(S-Interviewee 13)

Appendix 5.4-2 (Continued)

Local Chinese suppliers improve management concepts and the awareness of product quality to adapt to the requirement of Sino-foreign wine JVs and wholly foreign-owned wine firms.

“知名外资葡萄酒企业更愿意为优质的、体现品牌品味的礼盒包装支付较高价格。为了争取订单和扩大市场份额，中国本土的礼盒包装生产和供应商会投入研发费用，争取实现技术上创新和攻坚。”

(S-受访者12)

“与外资葡萄酒企业和中外合资葡萄酒企业的合作有助于提升中国本土软木塞供应商的质量意识和经营理念。”

(S-受访者15)

Joint development: (Construct 3. Amelioration)

Local Chinese suppliers and wholly foreign-owned wine affiliates collaborate to develop techniques.

“外资葡萄酒企业更看重酒标印刷品质的一致性，所以中国的酒标印刷供应商应该更注重与外企葡萄酒企业针对酒标细节的沟通，要做到在中国印刷的酒标与他们在国外使用的酒标保持一致性。”

“与外资葡萄酒企业的合作，注重细节讨论，愿意为精细的工艺花钱，对本土酒标印刷供应商的团队素质提高有很大帮助。”

(S-受访者11)

Innovation / Joint innovation: (Construct 3. Amelioration)

Local Chinese suppliers and wholly foreign-owned wine affiliates collaborate to innovate products.

“应该有。比如，轻量瓶，瓶子越做越轻，节约成本，但同时保证它的功能，密闭性，不易碎。特殊瓶型、标签、瓶盖的设计，为了体现企业的包装个性，我们都会跟供应商一同探讨，实现创新。”

(WFO-受访者1)

“对于酿造车间使用的辅助设备，企业给本地的供应商提供设计草图并与供应商共同研制出最终产品。”

(WFO-受访者2)

Famous wholly foreign-owned wine enterprise is willing to pay relatively high prices for quality packages. In order to get the order, Supplier 12 invested heavily in R&D to develop technology and solve technical difficulties

(S-Interviewee 12)

The collaborations with Sino-foreign JV wine companies and wholly foreign-owned foreign wine companies help Supplier 15 improve its management concepts and the awareness of product quality.

(S-Interviewee 15)

Wholly foreign-owned wine enterprises emphasise the consistency of their wine labels printed in China and overseas. Thus, Supplier 11 pays more attention to the communication around label details.

Wholly foreign-owned wine enterprises are willing to spend money for exquisite techniques and spend time for detail discussion, so the collaboration with them is helpful for Supplier 11 to improve its competence.

(S-Interviewee 11)

There were innovations happened through collaborations between Sino-foreign wine JVs / wholly foreign-owned wine affiliates and local Chinese suppliers. For instance, in order to produce light weight bottles with less cost and make sure that the bottles are not friable, have a good sealing performance and present the company's characteristics, a wholly foreign-owned wine affiliate provided sample bottles and discussed with a local Chinese bottle manufacturer about innovations on special shaped bottles, wine labels and bottle caps.

(WFO-Interviewee 1)

When customising auxiliary equipment for brewing shops, the company provides local manufacturer with design sketches; then the two parties discuss, amend and innovate the design together.

(WFO-Interviewee 2)

Appendix 5.5 Representative quotations demonstrating the augmentation of the O-specific advantages, resources and capabilities of local Chinese wine firms via equity-based linkages with foreign affiliates

Representative quotations from interviews	
(Original quotations in Chinese / English)	(English translation)
<p>“1. 改制以后，公司通过董事会治理企业发展。公司依照现代公司治理原则来科学地运作董事会，充分发挥投资方的资源优势和保障股东利益，从而为公司管理最大限度指引正确方向和保驾护航。企业在高点和低点时期，董事们不断优化和有效利用公司治理结构，这对公司的治理，特别对公司的全球收购并管控收购企业，起到了最大作用。</p> <p>2. 中方董事通过与外方董事合作治理企业学到国际贸易投资运作的经验，策略管理。这些经验包括：1）现代董事会制度，董事会针对公司重大事项进行决策。2）董事们擅长利用在董事会占有席位的影响来代表股东利益，从而推动公司形成好的法人治理结构。3）中外合资给公司引进了一个新的法人治理结构，从上到下有效地治理公司。这样的结构允许管理层在企业框架内自主运营公司业务。4）对于在国外收购的企业，公司作为大股东，借鉴公司在国内董事会治理公司的做法，换位思考，思维由乙方换到甲方，只靠董事会来治理国外并购企业，并不派驻任何员工。事实证明非常有益处。</p> <p>3. 公司利润增长了。公司从2003年到2017年的销售业绩、利润、股东分红高速增长。比如，从2003年到2012年的十年间，公司销售额大概保持年24%的平均增长率，大概是70%多的毛利率，这个水平是全世界唯一的。比如欧洲大约是1%的增长，甚至不增长。分红分得也很猛，几年就回本了。比如，意大利投资的这5个亿人民币，估计5-6年就回报了，而且这只是分了每年利润的3-4成。现在公司还在不断增值，好像世界银行说公司是他们在全世界投资的农业项目中排名第二好的。从2013年到2017年，公司的毛利率也不低，达到了60%几。相较于葡萄酒行业的普遍规律，国外大公司保持税前或税后3%到10%的利润率，公司现在的税后利润率保持在20%-30%。</p> <p>4. 企业的成长源于与国外合作和交流，中方向外方学到管理知识和理念，从全世界的角度来看待公司的生意，这样在研究大的问题时不容易出错。相比之下如果是用纯中国式的生意思维和管理理念，就很难进行中外交流，不利于企业全球化扩张。</p> <p>5. 员工能力提高了。公司管理层的成绩和能力得到了董事会充分的认可和欣赏。中国的葡萄酒酿造师也通过合作学习到了技术和管理经验。</p> <p>6. 产品质量提升了。</p> <p>7. 公司有很多创新。列举两个公司改制后，由董事会主导的两个关于创新的实例。比如，公司用车制度的创新，节省公司成本提高公车使用效率。给高层领导配车，由领导们自己开。公司留些必要的几台公车及相应人数的司机，并卖掉多余的公司用车，安排司机转岗。另外一个例子，公司领导层考核及薪酬发放制度的创新。由第三方人力资源公司依据世界通行的标准来制定考核制度和薪资结构。”</p> <p>(JV-受访人1)</p>	<p>1. The board of directors started to govern the development of the company, since the company was restructured. The board of directors scientifically operated in accordance with the principle of corporate governance. It fully exerted resource advantage and expertise from the investors to protect the interest of shareholders and guide company management with a right direction to its full potential. Directors continued to optimise the corporate governance structure and efficiently exert it to escort the company through its highs and downs. Corporate governance showed its greatest effect when the company conducted global acquisition and then managed and controlled those enterprises.</p> <p>2. Chinese directors learned expertise in international business, global investment and strategic management, through co-governing company with foreign directors. For example, a) under the board system, the board of directors took charges of making decisions for major issues of the JV. b) Directors exerted their voting weights at the board of directors to represent the interest of shareholders, which facilitated the establishment of an effect governance structure. c) Sino-foreign investment introduced the JV with a new corporate governance structure, which efficiently governed the company from top to bottom. The structure allowed management to operate the business autonomously within a corporate framework. d) When the JV purchased chateaus overseas, as a major shareholder, Chinese director who represented the JV drew on the experience of domestic board of directors and applied the expertise learnt from foreign directors of the JV to govern the chateaus acquired only via board of directors, without sending any domestic staff abroad. It proved that it worked well.</p> <p>3. From 2003 to 2017, with the governance of the board of directors, JV has achieved a high speed of growth in sales, profits and dividends. For example, for a ten-year period from 2003 to 2012, JV sales had kept about 24% of increase rate on average with over 70% of gross profit rate. This was unique in the international wine industry. From 2013 to 2017, the rate of gross profit was over 60% on average. By contrast, the increase rates of wine sales of European wine-producing companies were around 1% or zero. Normally, large foreign wine companies kept 3 - 10% of profit rates before or after tax while the JV kept 20 - 30% of profit rate after tax. In terms of dividend, the JV paid handsome dividends to its shareholders using 30 - 40% of net profit every year. For instance, Italian investor got payback after 5 - 6 years for its investment of CNY500 million to the JV. The JV kept increasing in value.</p> <p>4. Chinese directors learned management knowledge and idea from foreign directors through Sino-foreign collaboration, as JV is growing. Now the Chinese directors can operate business with an international vision to avoid mistakes when considering major issues. It would be hard for a Chinese enterprise to go global if Chinese business people apply Chinese-styled business thinking and management idea.</p>

<p>Appendix 5.5 (continued)</p> <p>"a) The chateau has made 66 new wines including the Grand Vin, the second wine and the third-tier wines with international standards. b) Process revolution towards quality wines. c) The chateau innovated products such as white Cabernet and white Rosé which were successfully sold in Europe. This is called "unique selling proposition". d) The chateau created strategies and new marketing approaches to Europe, and has built relationship with customers in Europe. e) With the improvement of business and reputation, the image of China's wine in Europe is changing from cheap to premium.." (JV-Interviewee 2)</p> <p>“比如葡萄园的修剪模式是单杆双臂，引进自法国波尔多，法国波尔多葡萄园的主杆大概是50、60公分，在中国要提高到80、90公分或者1米，因为我们这里下的雨比较多，比较急，只有把架势提高了，才能避免下雨时溅起的土壤、病菌沾到葡萄果粒上引起病虫害。” (L-受访人1)</p>	<p>5. Employees improved their abilities. For example, the achievement and ability of JV management were acknowledged and appreciated by the board of directors. Local Chinese wine-makers learned technologies and management experience via Sion-foreign collaboration. 6. Wine quality was improved a lot. 7. There were many innovations happened after JV restructure. For example, there are two innovations that led by board of directors. The first one was the innovation in company car use system which improved the usage efficiency of company car and saved cost for JV. The new company car system first allocated each senior manager a company car for him or her to drive by him- or herself; then the company kept a necessary number of company cars and drivers, and sold the rest. The other example was the innovation in the scheme of management assessment and payment. The company engaged a third-party human resource company to work out the system of management assessment and salary structure in accordance with international standards. (JV-Interviewee 1)</p> <p>Company's vineyards adopt "single guilot" as a vine posture which was introduced from Bordeaux of France. However, Chinese innovated the vine posture according to local natural conditions. For example, in Bordeaux, wine grape berries grow at a level about 50 – 60cm above the soil, but in China, it increases to 80 – 100cm. Because many wine-producing regions in China rain a lot more and heavier than in Bordeaux, higher main stems of vines could better prevent soil and bacterium form splashing onto berries and causing berry diseases. (L-Interviewee 1)</p>
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Appendix 5.5 (continued)

“酒庄的发展有：

1. 与酿酒葡萄种植和葡萄酒酿造相关的技术、管理水平得到提高。
2. 酿酒师培训员工使得员工能力提高了。酒庄团队从外籍酿酒师那里学到了敬业精神。
3. 产品质量提高了，获得了很多国内外大奖。酒庄从2012年开始酿酒，到2017年已经获得国际大奖22项、国内大奖26项。
4. 得益于借助外籍酿酒师来表现品牌优势，市场宣传做得更好。
5. 酒庄的销量增加了。”

(L-受访者2)

“1. 葡萄园扩大。

2. 产能扩大。
3. 产品质量提高，葡萄酒获得国内外大奖。
4. 公司利润增加。
5. 员工能力提高，包括通过外籍技术顾问的指导，专业技术能力提高了，更注重工作过程中的细节，员工的自律性也提高了。
6. 员工工资增加。
7. 员工对企业的信心增强。
8. 企业的工作环境改善。”

(L-受访者3)

“通过合作，酒庄庄主学到了很多市场营销的知识，积累了相关经验；这非常有助于酒庄自己开拓国际市场。”

(L-受访者4)

“1. 葡萄酒质量每年都在进步。

2. 员工的酿酒方面的技能和观念提高了。原来酿酒师知道的更多的是书本上的东西，但现在通过合作，酿酒师更深刻的了解了这个步骤为什么要这么做，并积累了注重细节的经验。”

(L-受访者5)

Company's upgrading:

- a) The technologies of winegrowing and winemaking, as well as winery management have been improved.
- b) Through the training from the foreign winemaker, staff competence has been improved. The local team has strengthened its professionalism with the influence of the foreign winemaker.
- c) Wine quality has been improved and won totally 22 prizes internationally and 26 prizes nationally from 2012 to 2017.
- d) Market promotion has been conducted better than before by engaging the foreign winemaker to advertise the brand.
- e) Sales increased.

(L-Interviewee 2)

1. Vineyard scale is expanded.

2. Production capacity is improved.
3. Wine quality is improved and many products won prizes nationally and internationally.
4. Company improved its profits.
5. Staff competence is improved. For example, through training by foreign consultants, local staff improved their technology, professionalism of paying attention to details, and self-discipline.
6. Staff's salary is increased.
7. Staff's confidence towards Company is strengthened.
8. Working environment is improved greatly..

(L-Interviewee 3)

Through the collaboration with the foreign wine distributor to develop the Chinese market, Company learned a lot of knowledge and accumulated experience regarding marketing which are very useful for the Company to explore international wine market.

(L-Interviewee 4)

1. Wine quality is making progress every year.

2. Local employees improve their and better understand about winemaking. For example, before, the local winemaker knew more about theories from textbooks, but now through the collaboration with foreign experts, he knows more about the reason why it needs to do so from a practical perspective; he accumulates experience and pays more attention to details.

(L-Interviewee 5)

<p>Appendix 5.5 (continued)</p> <p>“酒庄的进步包括，环保方面的提高，产品品质的提高，生产过程中对卫生和食品安全方面的意识有显著提高，员工能力得到提高，员工的工作态度更加严谨。酒庄的管理理念、技术标准完全按照国际标准来要求。” (L-受访人6)</p> <p>“a) 酿酒葡萄种植和葡萄酒酿造技术提高了。 b) 葡萄酒得奖了。 c) 酒庄品牌知名度提高了。 d) 销售提高了。 e) 员工能力提高了，学习和积累了比较成熟的酒庄管理的经验，更注重种植和酿造过程中的细节问题。” (L-受访人7)</p> <p>“1. 酿酒师的技能提高了，学习到和积累了专业的经验，以及国外更成熟的酿酒理念。比如，更了解一些辅料的用法，发酵过程每个阶段怎么把控、关键点是什么，橡木桶管理、调配、出桶、装瓶等环节的细节。 2. 合作的外籍酿酒技术顾问有在国外知名酒庄工作的经验，这有助于该酒庄的对外宣传。” (L-受访人8)</p> <p>“酒庄品牌在中国葡萄酒行业和市场内的声誉显著提高。” (L-受访人9)</p>	<p>Company's upgrading: a) Staff's awareness of environment protection, hygiene and food safety is improved. b) Wine quality is improved. c) Staff competence is improved. d) Staff's working attitude becomes more rigorous. e) Winery's management and technological practice follow international standards. (L-Interviewee 6)</p> <p>a) The techniques of winegrowing and winemaking are improved. b) There are wines that won international trophies. c) The reputation of the company is improved. d) Company's sales is increased. e) Company's employees improve their skills by learning and accumulating winery management experience. They now pay more attention to working details during winegrowing and winemaking. (L-Interviewee 7)</p> <p>1. Winemakers improved their skills, accumulated professional experience, and learned developed foreign winemaking concepts. For example, they learned about the usage of a few winemaking auxiliary materials, key points of every stage of fermentation, oak barrel management, wine-blending, some details of taking wine out of oak barrels and bottling wine. 2. The foreign winemaking consultant worked for the company had work experience at famous foreign chateaus. This is useful for the company to advertise its winery and wine. (L-Interviewee 8)</p> <p>Company's reputation with its wines has been greatly built and expanded in the Chinese wine industry and domestic market. (L-Interviewee 9)</p>
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<p>Appendix 5.5 (continued)</p> <p>“外国专家对我国葡萄酒行业的发展带来的积极影响的方面可以涉及：葡萄酒酿造技术可以借鉴。</p> <p>但有些方面是中国宁夏产区特有的，外国专家不了解。比如：</p> <p>a. 葡萄栽培，我觉得影响倒不大，没什么可借鉴的，因为宁夏模式包括树型、杆型跟其它地方不一样，他们是不下架的，他们是平栽，我们是沟栽。</p> <p>b. 外国专家对宁夏酒庄建造没有什么影响。</p> <p>c. 外资葡萄酒企业通常有自己的营销渠道，对本土葡萄酒企业的营销没有什么借鉴和帮助的作用。”</p> <p>(E-受访者5)</p> <p>“1. Now, through wine making-procedures, training and systems, the wine is more consistent.</p> <p>2. Chinese wineries start to have an international awareness with their products.</p> <p>3. Local staff enhanced their competencies by collaboration with the foreign winemaking consultant. For example, first, they improved winemaking skills through training by the foreign winemaker and winemaker exchange programme between overseas and China. Second, in terms of management skill, when the foreign winemaking consultant worked with them, they used computer more than before. They used spread sheet, check list and training guide to make jobs easier. Again, local staff has got international management thinking. For example, they started to understand a potential of the market and an awareness of opportunity to sell wine outside of China (international business thinking).”</p> <p>(FE-Interviewee 1)</p> <p>“1. 跟外籍酿酒技术顾问合作以后，中国的酒庄开始追求酿造精品葡萄酒和酿造细节。</p> <p>2. 葡萄酒质量得到很大提高。</p> <p>3. 中外合作提高了本地员工的技术和能力，并激发本地员工的对葡萄酒酿造工艺的思考。”</p> <p>(FE-受访者2)</p> <p>“After collaborating with the foreign winemaker, first, the wine quality was improved; local winemakers in the Chinese winery improved their skills, abilities and working habits; and the Chinese winery started to excise good operation concepts.”</p> <p>(FE-Interviewee 3)</p>	<p>Foreign experts have an positive influence on winemaking techniques in Ningxia. However, they do not have too much influence on wine grape cultivation, chateau construction in Ningxia. For instance, wine grape’s cultivation mode in Ningxia is different from other wine regions. Also, because IFDI wine companies have their own marketing and sales channels, they cannot help too much for local winery about marking and sales.</p> <p>(E-Interviewee 5)</p> <p>1. The collaboration with foreign winemaking consultants inspires Chinese wineries to pursue winemaking details, and make exquisite and boutique wines.</p> <p>2. The collaboration with foreign winemaking consultants greatly improves local wine quality.</p> <p>3. The collaboration with foreign winemaking consultants improves local staff’s skills and competence, as well as encourages them to think about winemaking techniques.</p> <p>(FE-Interviewee 2)</p>
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Appendix 5.6 Representative quotations and archival entries demonstrating the augmentation of the O-specific advantages, resources and capabilities of local Chinese suppliers, distributors and alliance partners via non-equity-based linkages with Sino-foreign wine JVs and wholly foreign-owned wine affiliates

Representative quotations from interviews and archival entries	
(Original quotations in Chinese / English)	(English translation)
<p>“与外资酒企的合作……对我的营销有品牌影响，因为知名外企都用了我代理的产品，有助于我的营销战略。” (S-受访人1)</p> <p>“与外资酒庄合作从间接的角度对供应商的产品起到宣传作用。比如供应商可以向其他客户宣传说某某知名外资企业也使用了该品牌的橡木桶或者软木塞。” (S-受访人4)</p> <p>“与中外合资酒庄的合作对供应商来说好处就是口碑，我经常碰到的情况就是客户帮我推荐客户。” (S-受访人5)</p> <p>“从商业角度考虑的话，外资企业按合同操作，更规范一点，比如遵守回款日期，先付款后发货。” (S-受访人6)</p> <p>“1. 与外资葡萄酒企业的合作，会对辅料供应商有间接和直接的促进作用。比如间接促进作用体现在，如果外企的外籍酿酒师在中国的经验没有足够丰富，在遇到问题的时候需要咨询我们或者需要我们帮助寻找急需的产品，就会引发我们思考，促进我们去寻找解决方案。直接的促进作用体现在，比如遇到一些比较友好的外国酿酒师，他会与我们聊天、品鉴，探讨工艺，向他们学习酿酒过程中对细节的把控。 2. 外资葡萄酒企业的人性化管理对本地的辅料供应商企业产生了一定积极影响。后者把这种管理方式运用到企业中，给员工提供开心和激励的工作环境，灵活的办公模式，提高员工的福利、出差待遇，让员工获得尊重感和自豪感。” (S-受访人9)</p>	<p>Famous foreign wine enterprises use the products that my firm distributes, which benefits my firm's marketing strategy. Thus, the collaboration with them helps advertise my business and expand the brand impact of my firm. (S-Interviewee 1)</p> <p>The collaboration with wholly foreign-owned wine companies indirectly helps supplier advertise its products. For example, the supplier can promote its oak barrels and corks by saying that some famous international wine companies are using these products. (S-Interviewee 4)</p> <p>The collaboration with Sino-foreign wine firms helps supplier to promote its reputation in the industry. It is very often that new customers come to the supplier because of word of mouth by existing customers. (S-Interviewee 5)</p> <p>From commercial perspective, wholly foreign-owned wine companies do business following contracts. For instance, they issue payment on time and deliver goods after receiving payments. (S-Interviewee 6)</p> <p>1. The collaboration with wholly-owned foreign wine companies helps supplier improve indirectly and directly. First, if a foreign winemaker does not have experience of making wine in China, he/she needs to consult the supplier or asks the supplier to look for enological excipients for him/her. This can shed light on the supplier and encourages the supplier to look for solutions. Second, if a foreign wine-maker is friendly and willing to taste wines and communicate with the supplier together, the supplier can learn from him/her about how to deal with winemaking details. 2. The people-oriented management of wholly foreign-owned wine companies has a positive impact on the supplier's management style. Supplier 9 has learned from wholly foreign-owned wine companies to provide a friendly and motivational work environment, and flexible “office” mode, as well as increase staff welfare and business traveling expenses. All these have made its employees feel a sense of being respected and a sense of proud. (S-Interviewee 9)</p>

Appendix 5.6 (continued)

“外资葡萄酒企业对供应商的态度一般很客气。外企习惯按照合同办事，合同很详细，包括了一切可预计的情况，很周到，所以虽然程序繁琐、负责啊，但保障性比较好。这种契约精神可能是国内企业需要向他们学习的，是一个规范化的过程。”

(S-受访者9)

“辅料供应商给企业提供产品做实验，外资管理具有严格性和规范性，员工对于一些细节包括在实验和做记录等方面的认真度比较高，最后把实验结果分享给供应商，并且反馈信息的完整度高。”

(S-受访者9)

“无论是中资葡萄酒企业还是中外合资葡萄酒企业，合作给该酒标设计供应商带来的影响是为公司增加了一个宣传案例，带来了品牌效应。”

(S-受访者10)

“1. 外资葡萄酒企业对于酒标的理念和审美观，给我们公司带来了启发。比如，设计简单的酒标也可以体现高档气质，而中国大多数葡萄酒酒标在设计和用色方面显得土气。

2. 外资酒企有坚持酒标的一致性有利于培养消费者对品牌的认知度的理念。我们公司通过与外资酒企合作，学习到了这种理念，并经常把这种理念宣导给与我们合作的其他中国本土酒企。

3. 与外资葡萄酒企业的合作，使得我们公司有机会测试和对比中外多种不同的酒标材料，从而学习到了不同材料的优缺点，积累了经验。

4. 通过与外国葡萄酒企的合作，使得我们公司积累了国内同行没有的经验，比如葡萄酒标的冰桶测试经验。并且了解了酒标的耐冰桶的工艺，以及红葡萄酒和白葡萄酒酒标对于耐冰桶测试的不同标准。目前中国本土的葡萄酒企业大多不重视对酒标的耐冰桶测试，所以在此之前，我们公司根本没有机会接触过类似技术。

5. 与外资葡萄酒企业的合作，为我们公司在业界带来了知名度，很多葡萄酒企业慕名而来合作。

6. 因为中国在烟酒包装上各种工艺的开发、技术在国际上处于领先地位，所以酒标印刷技术方面，国外现在使用的技术，中国本土的印刷供应商也运用得很好，因此在这方面外资葡萄酒企业没有带来太多的帮助。”

(S-受访者11)

Wholly foreign-owned wine enterprises are friendly to suppliers. They do business following contracts where nearly all possible situation and results are recorded in detail. It feels thoughtful, tedious and guaranteed.

(S-Interviewee 9)

Suppliers provide samples of enological excipients to wineries for experiments. Employees from wholly foreign-owned wine companies, with rigorous management, carefully record experiment data and share all analysis results with the suppliers.

(S-Interviewee 9)

The collaborations with Chinese and Sino-foreign JV wine companies resulted in successfully designed wine labels which satisfied customers. These achievements bring in a brand effect and facilitate the improvement of supplier's reputation.

(S-Interviewee 10)

1. Wholly foreign-owned wine enterprises shed light on our firm with an ideas of wine label design and aesthetics. For instance, foreign wine label's design is simple but can still has a classy and upmarket feel. By contrast, the design and usage of colour of most Chinese wine labels are rustic.

2. Wholly foreign-owned wine enterprises insist on the consistency of wine label to cultivate customer's awareness towards the brands. Our company learn this concept and deliver it to Chinese wineries that we collaborate with.

3. Through the collaboration with wholly foreign-owned wine enterprises, our firm has chances to test and compare different wine label materials from China and overseas, and learn their pros and cons.

4. Through the collaboration with wholly foreign-owned wine enterprises, our firm accumulates experience of wine label ice bucket test which other Chinese label print houses do not have. We also learn about the technique of producing wine labels that can stand in ice buckets, and different test standards of labels for red and white wines. Currently, most Chinese wineries still do not pay attention to wine label's ice bucket test, so before our firm rarely had a chance to know this technique.

5. The collaboration with wholly foreign-owned wine enterprises helps our firm build and expand market reputation, which brings more winery customers.

6. China's package technique and R&D, as well as printing technique are in the leading position in the world. Hence, from this aspect, wholly foreign-owned wine enterprises do not have too much help.

(S-Interviewee 11)

Appendix 5.6 (continued)

“1. 国际知名品牌的葡萄酒标签坚持保持一贯性，有助于培养消费者对品牌的认知度。
2. 从货款结算方面来比较，外资葡萄酒企业讲信誉，账期到了就结款。
3. 外资企业考虑更多的是体系的永续经营和稳定性，品牌，做事情的准则。
4. 中外葡萄酒企业重视的方面不同，所以中国本土的酒标印刷供应商与他们合作的方式会不同。比如，外资葡萄酒企业更看重酒标印刷品质的一致性，所以中国的酒标印刷供应商应该更注重与外企葡萄酒企业针对酒标细节的沟通，要做到在中国印刷的酒标与他们在国外使用的酒标保持一致性。
5. 与外资葡萄酒企业的合作，注重细节讨论，愿意为精细的工艺花钱，对本土酒标印刷供应商的团队素质提高有很大帮助。但缺点是花费了很大的人力和时间，由于外资企业印刷的量不大，因此实际的经济效益不大。”
(S-受访人11)

“1. 过去他们只根据客户要求来做测试，客户没有测试要求的话，供应商不做测试。但现在即使客户不要求，我们也会做基础的常规测试，比如对于盒子功能性的测试；然后根据客户的特别要求做一些相关测试。这对于中国本土礼盒包装生产和供应商来说，虽然增加了成本，但是一个学习和进步的过程。供应商意识到这样可以最大限度地保证产品不出现功能性问题，因为没有做这些测试，一旦交货后出现问题，这个成本最终还是要付出的。倒不如通过测试，提前采取措施最大限度避免风险。
2. 与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之二是：供应商意识到国际知名品牌企业特别注重企业的社会责任，包括他们的代工厂在内，如果产品质量或者强迫劳动等事故被曝光，是对企业信誉的巨大损失。所以大型企业都非常在意企业的社会责任，特别是环境保护、产品质量的审查。
3. 与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之三是：对做事的严谨性的提高。比如一些常规的测试要求等，以前我们觉得只要满足就好，或者他没发现的我们做得差不多就可以了，但现在我们是越来越认为一定要做到，甚至超过他们的标准。我觉得这是企业 and 人员素质和思想意识的转变。
4. 与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之四是：促进设计理念和审美感的提高。虽然中国供应商在礼盒包装制作的常规工艺上不比国外差，但在礼盒包装设计的理念和审美感方面，与外资葡萄酒公司提供的国外样品相比还是有一定差距。这时候，外资葡萄酒企业给本土礼盒包装生产提供的样品，其实对后者是一种学习和开拓眼界。这种在礼盒包装的设计理念和审美能力的提高，可以使供应商更好地为今后的客户服务。
5. 与外资葡萄酒企业合作对本土礼盒包装生产和供应商的影响之五是：促进技术进步。
首先，知名外资葡萄酒企业更愿意为优质的、体现品牌品味的礼盒包装支付较高价格。为了争取订单和扩大市场份额，中国本土的礼盒包装生产和供应商会投入研发费用，争取实现技术上创新和攻坚。其次，外资葡萄酒企业会开放地介绍礼品包装的打样顾问与量产商认识，促进沟通。”
(S-受访人12)

1. Internationally famous wine brands keep their wine labels consistent, which is helpful for consumers to form an awareness towards the brands.
2. Wholly foreign-owned wine enterprises have good credibility and issue payments on time.
3. Wholly foreign-owned wine enterprises more consider business sustainability and stability, brand and principle.
4. Wholly foreign-owned wine enterprises and Chinese wineries have different focuses on the collaboration with the local supplier, so the supplier applies different strategies when working with them. For instance, wholly foreign-owned wine enterprises emphasise the consistency of their wine labels printed in China and overseas. Thus, the supplier pays more attention to the communication around label details.
5. Wholly foreign-owned wine enterprises are willing to spend money for exquisite techniques and spend time for detail discussion, so the collaboration with them is helpful for the supplier to improve its competence. However, due to a limited print volume, after spending a lot of time and effort to work with foreign wholly-owned wine enterprises, Supplier 11 does not get too much profit.
(S-Interviewee 11)

1. Before if customers did not request function tests, supplier did not conduct tests for them. Now the supplier does a routine test for all products with their functions even customers do not have a related requirement. This increases the supplier's cost, but creates a chance for the supplier to study, as well as ensure the quality as much as possible. The supplier realises that if there is any quality problem found after shipment, the supplier will still need to take the responsibility. Hence, it is better to find out the potential problem and solve it before delivery.
2. The supplier realises that the internationally famous wine enterprise pays attention to CSR very much. It inspects itself and its OEMs about product quality, forced labour and working environment strictly, because any of these issues can destroy the company's reputation.
3. The supplier becomes more rigorous. Take function test as an example, now the supplier conducts it more strictly than before. Before the supplier did it according to customer's request, or sometimes slightly less than being requested, but now the supplier conducts function tests using its developed standards which is stricter than customer's requirements. This shows an ideological improvement of the supplier and its employees.
4. The collaboration with the wholly foreign-owned wine enterprise helps the supplier improve its package design concepts and aesthetics. The supplier's production technique of gift boxes and packages can compete against foreign countries, but package design concepts and aesthetics are still way behind foreign countries. The foreign package samples provided by the wholly foreign-owned wine enterprise broadened local gift box supplier's horizon. With the improvement of design idea of gift box and packaging, the supplier can better prepare for its future customers.
5. The collaboration with the wholly foreign-owned wine enterprise helps the supplier improve its techniques. First, the famous wholly foreign-owned wine enterprise is willing to pay relatively high prices for quality packages. In order to get the order, the supplier invests in R&D to innovate. Second, the wholly foreign-owned wine enterprise is open to introduce their package proofing consultants to the supplier for communication.
(S-Interviewee 12)

<p>Appendix 5.6 (continued)</p> <p>“与国内知名企业包括中外合资、外资、国企葡萄酒企业合作，为该葡萄酒瓶子供应商带来了广告效应；同时由于产品优质，该供应商在中国葡萄酒行业内有这很高的口碑。” (S-受访人13)</p> <p>“与外资葡萄酒企业的合作要麻烦一些，因为他们要求高，比如每年都要年审，内容包括ISO9000验证、质量管理体系、生产管理体系，生产过程中的6S的，以及葡萄酒企业的相关要求。比如很久以前，中国葡萄酒行业对葡萄酒瓶的罐装要求比较低，现在为了满足外资葡萄酒企业对葡萄酒瓶的罐装要求，中国的葡萄酒瓶子生产商提高了相关技术标准，加强了瓶子的包装，以及提高了成品库的建设。” (S-受访人13)</p> <p>“1. 与知名外资品牌葡萄酒企业合作，作为合作洽谈的一环，这些外企企业会派出有外国玻璃专家的团队来审核工厂，了解企业硬件和软件的实力，审核标准。 2. 相对于国内企业而言外企对质量要求更高些。也对质量体系要求严格一些。对我们公司的质量体系的建立有一定促进作用。” (S-受访人13)</p> <p>“听说知名的外资葡萄酒企业行事严谨，想要成为他们的供应商要经过比较严格的审核程序，但一旦建立了合作关系，都按合同办事、按合同规定日期结款，外资企业的信誉一般都很好。第二，外资的计划性比较强，包括全年的计划都做得很强，供应商完全有时间把工作操作完。” (S-受访人14)</p> <p>“与外资葡萄酒企业和中外合资葡萄酒企业的合作有助于提升中国本土软木塞供应商的质量意识和经营理念。” (S-受访人15)</p>	<p>The collaborations with famous Sino-foreign JV wine enterprises, wholly foreign-owned wine enterprises and state-owned wine enterprises cause advertisement effect for Supplier. Along with quality products, the supplier enjoys a very high reputation in the Chinese wine industry. (S-Interviewee 13)</p> <p>Wholly foreign-owned wine companies have higher requirements to supplier than other wine companies. For instance, they request an annual inspection towards suppliers and check items include quality management system (ISO9000), production management system, 6S during production and specific requirements form every different wine companies. In order to satisfy wholly foreign-owned wine companies, The supplier uses higher technique standards, improves bottle's package and upgrades storage conditions. (S-Interviewee 13)</p> <p>1. When discussing collaborations with famous wholly foreign-owned wine enterprises, they sent foreign experts in glass and bottles to inspect our company and check our hardware and software. 2. Compared to Chinese wine firms, wholly foreign-owned wine companies have stricter standards towards quality management system. The collaborations with them helps our company build and improve its own quality management system. (S-Interviewee 13)</p> <p>It is said that to become a supplier for wholly foreign-owned wine enterprises, it needs to go through a rigorous inspection process. Once the collaboration is built, all businesses follow contracts. Wholly foreign-owned wine enterprises have good credibility and issue payment on time. Furthermore, wholly foreign-owned wine companies have production plans in advance for the next whole year, so suppliers have enough time to prepare goods. (S-Interviewee 14)</p> <p>The collaborations with Sino-foreign JV wine companies and wholly foreign-owned wine companies help the supplier improve its management concepts and the awareness of product quality. (S-Interviewee 15)</p>
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<p>Appendix 5.6 (continued)</p> <p>“1. 知名品牌的外资酒企在考察中国的软木塞供应商的时候，以及开始合作之后的每年都会对后者进行审核，并提出整改意见，从而帮助后者提高。</p> <p>2. 外资葡萄酒企业把国外的标准提供给中国当地软木塞供应商，后者按照客户的要求供货。这对于本地供应商是学习和积累经验的机会。通过合作，中国本地软木塞供应商得以提高供应实力，改善工艺，提高产品质量，学习到对于某种葡萄酒或者是葡萄酒瓶应该使用什么样的软木塞。</p> <p>3. 与外资葡萄酒企业和中外合资葡萄酒企业的合作有助于提升中国本土软木塞供应商的质量意识和经营理念。”</p> <p>(E-受访人15)</p> <p>“1. 外资、中外合资酒企、以及中资大型酒企的管理比较完善，正规。比如对合同的确认，合同的完整程度，图案的确认，付款方式/信誉都非常好/诚信，付款及时，计划性特别强。中国本地软木塞供应商喜欢和外企企业及合资企业打交道，比较放心。</p> <p>2. 外资葡萄酒企业比起价格更侧重于软木塞的产品质量和对酒的影响，比如软木塞对酒本质的影响，包括对酒的香气、TCA、透氧率、储存、密封等。外资酒企选择软木塞更理性。</p> <p>3. 外资葡萄酒企、中外合资葡萄酒企和中资大型葡萄酒企对罐装设备比较关注，会避免很多问题。”</p> <p>(E-受访人15)</p> <p>“1. 售后服务体现在酒企对经销商的员工做培训，给分销商做培训，对经销商在全国各地的团队举行消费者见面会给予人力支持。培训包括酒庄的创业故事，每款酒的市场方向，品尝每一款酒，让一线员工对酒的质量有一个新的感受。</p> <p>2. 酒庄给经销商提供市场推广费用。与我们一起参加展会，媒体推荐会等。</p> <p>3. 技术支持体现在向专业群体解答葡萄园一年四季的管理，从葡萄园到酒杯整个过程的差异包括用什么样的方式采摘，green harvest 的强度，发酵时用什么样的酵母及橡木桶，木桶里的陈酿时间，上市前在瓶中的陈酿时间等技术信息，经营理念。”</p> <p>(D-受访人1)</p> <p>“可以给企业带来一定的关注度和销售量。”</p> <p>(D-受访人1)</p>	<p>1. Famous foreign wine companies' branches in China conduct an inspection to Supplier every year when they discussed collaborations with the supplier and during collaboration. Through the inspection, wholly foreign-owned wine companies provide solutions for the supplier to improve.</p> <p>2. Wholly foreign-owned wine companies provide foreign standards of corks to the supplier, which helps the supplier 15 study and accumulate experience. Through the collaboration, the supplier improves its techniques, product quality and supply ability. Also, the supplier's employees learn how to choose corks with wines and wine bottles.</p> <p>3. The collaborations with Sino-foreign JV wine companies and wholly foreign-owned wine companies help the supplier improve its management concepts and the awareness of product quality.</p> <p>(E-Interviewee 15)</p> <p>1. Wholly foreign-owned wine companies, Sino-foreign JV wine companies and large-sized Chinese wine companies have systematic management and operate business following contracts and formal process. For example, these companies have complete business plans, formal contracts and good business credibility. They confirm contracts and product specifications with the supplier carefully. They issue payment on time. Thus, the supplier feels safe to do business with these companies.</p> <p>2. Wholly foreign-owned wine companies pay more attention to cork's quality and its effect on wine. Cork's effect on wine can be flavour, TCA contamination, oxygen permeability, storage and leak-tightness. Overall, foreign wholly-owned wine companies choose corks rationally.</p> <p>3. Wholly foreign-owned wine companies, Sino-foreign JV wine companies and large-sized Chinese wine companies more like to invest in quality bottling machines to avoid production problems.</p> <p>(E-Interviewee 15)</p> <p>1. Wineries provide training for the distributor and its sub-distributors. The training contents include wineries' story, wine's market directions and wine tastings. Through the training, front-line salespersons better understand the wine quality.</p> <p>2. Wineries provide the distributor with market promotion funds. Wineries' representatives work with the distributor to attend wine exhibitions, media conferences and consumer clubs throughout the country.</p> <p>3. Wineries' representatives work with the distributor to deal with wine professionals' enquiries during promotion events. Wineries' representatives introduce about their wineries' management ideas and modes, referring to grape-picking, green harvest, the usage of yeasts and oak barrels, wine's aging time in barrels, wine's aging time in bottles before sales, and investors' business concepts.</p> <p>(D-Interviewee 1)</p> <p>The collaboration with a wholly foreign-owned wine firm brings Distributor 1 with a certain degree of market attention and sales achievement.</p> <p>(D-Interviewee 1)</p>
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<p>Appendix 5.6 (continued)</p> <p>“1. 酒庄提供高品质的葡萄酒。 2. 酿酒师给经销商提供关于自酿葡萄酒产品的培训，参加经销商组织的推广活动，品鉴会，葡萄酒晚宴，拜访客户，给客户提供培训，参与经销商的市场营销的讨论并提供行业信息。” (D-受访者2)</p> <p>“外资酒庄提供的增值服务包括，协助经销商开展市场推广和举办品鉴会，比如，提供市场经费，派遣外籍酿酒师向经销商和客户介绍品牌文化，酒庄历史，葡萄酒的年份、类型和特点。邀请经销商参加葡萄酒展览会，并提供差旅费。参展期间，给经销商和顾客提供葡萄酒学习和品鉴的机会。在重要客户生日或者特殊纪念日的时候送上惊喜礼品。” (D-受访者3)</p> <p>“1. 外资酒庄为经销商做销售活动提供产品支持。产品支持是销售政策上的支持，比如新年礼盒，价格优势，品鉴会。 2. 外资酒庄给销售商提供产品数量管理系统。” (D-受访者3)</p> <p>“1. 外资酒庄更注重葡萄酒的文化的传播，以及通过给经销商和终端客户提供增值服务建设销售渠道和培养品牌。比如一个外资酒庄来到中国，有可能刚开始是不赚钱的，做着战略性的亏损，为了逐渐进入中国市场。 2. 外资酒庄通过品牌建设推广葡萄酒销售。” (D-受访者3)</p> <p>“Changyu in turn will help distribute selected wines represented by ASC Fine Wines via Changyu’s existing national sales channels...” (The drinks business, 2019)</p> <p>“在成都举办的第100届全国糖酒商品交易会期间，ASC精品酒业公司与张裕葡萄酒股份有限公司签署战略合作协议，将由ASC代理宁夏张裕摩塞尔十五世酒庄出品的葡萄酒，包括张裕摩塞尔十五世酒庄赤霞珠(正牌)、张裕摩塞尔家族赤霞珠(副牌)、张裕摩塞尔传奇赤霞珠干红和赤霞珠干白。” (chinanews.com, 2019a)</p>	<p>1. The winery supplies quality wines. 2. The winemaker gives training to the distributor about her wines. She attends promotion events, tastings and wine dinner parties organised by the distributor. She also visits customers and provides training, together with the distributor. The winery works with the distributor to discuss about marketing programmes and provides industry information. (D-Interviewee 2)</p> <p>The added-value services that a foreign wine firm provided for the distributor included assisting the distributor to hold promotion events and tastings. For example, the foreign winery provided marketing fees, sent its foreign winemaker to visit the distributor and consumers, and introduced brand culture, winery historical story, vintage year, wine grape variety and wine’s features. The foreign wine firm invited the distributor and consumers to attend wine exhibitions overseas and provided traveling expenses. During traveling, the foreign wine firm organised wine study and tastings for the distributor and consumers. Further, the foreign wine firm sent gifts to VIP customers on their birthdays or special anniversary days. (D-Interviewee 3)</p> <p>1. The wholly foreign-owned wine firm provided the distributor with product support including for its market promotion. For instance, according to company’s sales policy, the product support means favourable price, gift boxes and wine samples for tastings. 2. The wholly foreign-owned wine firm provided the distributor QSM (i.e. quantitative software management). (D-Interviewee 3)</p> <p>1. Foreign wine firms more focus on promoting wine culture, building distribution channels and brands by providing value-added service for distributors and end-consumers. For instance, a foreign wine affiliate in China might not rush to make a profit but starts with a strategic deficit in order to gradually adapt to the Chinese market structure and local policies. 2. Foreign wine firms promote wines through brand-building. (D-Interviewee 3)</p> <p>In Chengdu, during the 100th China National Sugar and Alcoholic Commodities Fair, ASC Fine Wines has signed a strategic co-operation agreement with Changyu Pioneer Wine Company. This allows ASC to distribute premium wines from Changyu's Ningxia-based winery (Château Changyu Moser XV), including Chateau Changyu Moser XV Cabernert Sauvignon, Moser Family Cabernet Sauvignon, Moser XV Cabernet Sauvignon and Moser XV Cabernet Sauvignon Blanc de Noir. (chinanews.com, 2019a)</p>
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Appendix 5.7 Representative quotations demonstrating the impact of IFDI on the development of the Chinese wine industry

Representative quotations from interviews	
(Original quotations in Chinese / English)	(English translation)
<p>“外方股东投入资金，通过董事会来管理公司。”</p> <p>“外资带来了不同理念、方法，包括法人治理结构。通过结合中国市场巨大潜力，在外资的影响下，中国葡萄酒行业在量和速度方面都有了成长。”</p> <p>(JV-受访者1)</p> <p>"IFDI brings in foreign advanced know-how and enhances the China's wine industry. IFDI also, to some extent, causes competition which pushes players to improve from every aspect including R&D demand, knowledge exchange and technological competence."</p> <p>(JV-Interviewee 2)</p> <p>“外方带来了资金、技术、管理理念。”</p> <p>“1. 外资带来先进的酿酒葡萄种植和葡萄酒酿造技术。</p> <p>2. 帮助中国葡萄酒行业培养了人才，一些从中外合资酒企或者外资酒企离职的人才先后成为了本地酒企的骨干。”</p> <p>(JV-受访者3)</p> <p>“外方投入了资金。”</p> <p>“会有积极的促进作用。比如外资会带来先进的技术和管理理念；由外资参与的酒企生产出的优质葡萄酒会给本地企业造成竞争压力，也是间接促进行业整体素质的提高。”</p> <p>(JV-受访者4)</p> <p>“该企业是外商全资子公司，所以资金和软、硬件都有全方位投入。”</p> <p>“1. 外资有助于中国葡萄酒企业缩短与国外技术和管理水品的差距。</p> <p>2. 外资看重中国的市场潜力，外资进入中国葡萄酒行业可以带来资金、成熟的技术和管理理念，同时有助于发展本地葡萄酒市场。”</p> <p>(WFO-受访者1)</p>	<p>Foreign investors has invested capital and governed the JV through the board of directors.</p> <p>FDI has brought in the Chinese wine industry with different ideas and methods including corporate governance. By combining the huge potential of the Chinese wine market and the impact of FDI, the Chinese wine industry has grown in terms of volume and speed.</p> <p>(JV-Interviewee 1)</p> <p>Foreign investors brought in capital, technology, management expertise and experience and distribution channel overseas.</p> <p>1. IFDI has brought in developed winegrowing and winemaking technologies.</p> <p>2. IFDI has helped the Chinese wine industry train up skilled professionals. Some former employees from Sino-foreign wine JVs and wholly foreign-owned wine affiliates have become backbone telants in local wineries.</p> <p>(JV-Interviewee 3)</p> <p>IFDI has brought in capital.</p> <p>IFDI has positive influence on the Chinese wine industry. For example, IFDI has brought in advanced technology and management experience. The competition stress caused by quality wines form IFDI wine-producing companies actually has indirectly stimulated the development of the Chinese wine industry.</p> <p>(JV-Interviewee 4)</p> <p>Our company is a wholly-owned foreign branch and so the foreign parent company invested money, and all hardware and software.</p> <p>1. IFDI is helpful for the Chinese wine industry to shorten the distance to foreign advanced level in terms of technology and management.</p> <p>2. IFDI values the potential of China's wine market. Foreign investors has brought in capital, advanced technology and management ideas, which facilitates the development of the Chinese wine industry.</p> <p>(WFO-Interviewee 1)</p>

<p>Appendix 5.7 (continued)</p> <p>“外商投资建设酒厂、葡萄园，引进设备和资金（包括innovation budget）、投资集团独特的管理策略和管理系统涉及财务、人事、葡萄供应、成本、采购等企业运行的各方面。”</p> <p>“1. 外资进入中国葡萄酒行业，有助于提升产区品牌。比如一个国际的品牌的葡萄酒企业像拉菲投资蓬莱、LVMH投资宁夏，受到世界知名媒体的关注，比如，路透社、华盛顿邮报。</p> <p>2. 外资带了了资金、先进技术、成熟的管理理念、经验和方法。</p> <p>3. 外资企业也带动中国葡萄酒行业的研发和创新。</p> <p>4. 外资企业帮助中国葡萄酒行业培养人才。”</p> <p>（WFO-受访人2）</p> <p>“外资进入中国葡萄酒行业，带来先进的技术、理念和对于生产优质葡萄酒的执着。”</p> <p>（WFO-受访人3）</p> <p>“葡萄酒行业很特殊，有美好的未来，但是个长线投资，不适合赚快钱。投资葡萄酒行业的外国投资人了解这一点，所以可以很系统的开展事业，他们的这种理念给中国本土葡萄酒行业人士带来很大影响。因为他们这样的做法符合葡萄酒发展的基本规律，必然能够把项目带到一个高度上，成为标杆，成为大家学习的榜样。”</p> <p>（E-受访人1）</p> <p>“以外资模式运作葡萄酒企业给中国葡萄酒行业带了来了欧洲的葡萄种植和葡萄酒酿造的方式，并且在葡萄酒企业的经营理念方面给中国葡萄酒行业带了的很大的积极影响。”</p> <p>（E-受访人2）</p> <p>“外资投入中国葡萄酒行业，说明中国葡萄酒产区和中国葡萄酒市场很有潜力，这给当地葡萄酒行业中其他企业增加了信心。”</p> <p>（E-受访人3）</p>	<p>Foreign investors have invested in wineries, vineyards, equipment and capital (e.g innovation budget), company strategies and management systems covering every aspect of business operation from finance, HR, wine grape supply, cost to procurement.</p> <p>1. FDI into the Chinese wine industry is helpful for promoting the brand of the wine-producing region where the IFDI locates. For example, Lafite’s investment in Penglai and LVMH’s investment in Ningxia have drawn the attention of international media such as Reuters and the Washington Post to Penglai and Ningxia of China.</p> <p>2. IFDI has brought in capital, advanced technology, and mature management idea, experience and methods.</p> <p>3. Wholly foreign-owned wine affiliates have driven R&D and innovation in the Chinese wine industry.</p> <p>4. Wholly foreign-owned wine affiliates help the Chinese wine industry train up talents.</p> <p>（WFO-Interviewee 2）</p> <p>IFDI has brought in advanced technology, idea and persistence spirit to producing quality wines for the Chinese wine industry.</p> <p>（WFO-Interviewee 3）</p> <p>The Chinese wine industry have a bright future. However, the winery business needs a long-term investment and is not for making quick money. Foreign wine investors understand it and so can systematically carry on the business. Their operation concepts about the winery business are in line with how a good wine to be made and can lead the business to a certain success. This shed light on China wine professionals and makes local wine firms want to learn from IFDI wine companies.</p> <p>（E-Interviewee 1）</p> <p>IFDI wine companies that operate the business in a European mode bring methods of winegrowing and winemaking, as well as European concepts of wine business operation to the Chinese wine industry. The European wine operation philosophies positively influence the Chinese wine industry.</p> <p>（E-Interviewee 2）</p> <p>Foreign investors build branches in China, which proves the potential of China’s wine regions and wine market. This increases the confidence of other local wine enterprises.</p> <p>（E-Interviewee 3）</p>
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<p>Appendix 5.7 (continued)</p> <p>“外资酒企投资中国市场，在葡萄酒营销的过程中，培训消费者的同时也间接为中国本土酒庄培养潜在消费者。因为消费者只有在具有一定葡萄酒知识，并且葡萄酒消费在中国消费者中得到一定程度的普及的情况下，才会开始寻找更有特色的葡萄酒。葡萄酒本身就属于个性化产品，只用消费者达到了一定基数，酒庄才能进一步细分市场。” (E-受访者3)</p> <p>“外资促进我国葡萄酒行业的发展。特别是国外知名葡萄酒企业的栽培管理、酿造模式、企业管理理念、结合中国当地情况进行技术创新，这些对我们本土企业有启发。虽然外资葡萄酒企业在中国聘请当地职业经理人、园艺师、酿酒师，但外资企业凭借其全球资源整合的能力为员工创造了创新的平台。而且外企也欢迎同行来参观和学习。” (E-受访者3)</p> <p>“外资企业对当地的葡萄种植、葡萄酒酿造技术的提升发挥了示范和推动作用。如果外资酒企做得好，会成为当地企业借鉴的模板，大家学习的标杆。比如夏桐在宁夏建厂，起泡酒做得相当棒，葡萄园管理得也挺好。前去参观的人也不少。” (E-受访者3)</p> <p>“1. 行业技术革新。 2. 带来先进的管理模式包括技术、人事、财务的管理。” (E-受访者4)</p> <p>“1. 世界名庄落户蓬莱产区，对产区知名度有一定拉动作用。比如，蓬莱当地葡萄酒行业最具代表性的外资是拉菲。拉菲是世界五大名庄之一，像这种世界知名的法国酒庄在蓬莱投资，极大地提升了整个蓬莱产区的知名度。 2. 世界名庄落户蓬莱产区可以吸引其它葡萄酒企业在相同产区的投资。 3. 世界名庄落户蓬莱产区有利于交流技术。比如在邀请国外技术人员到中国进行技术指导的同时，可以为中国的技术人员到国外参加技术培训提供机会。并且长期的技术顾问会深入研究当地气候和土壤，这对该产区的葡萄栽培很有帮助。 4. 世界名庄落户蓬莱产区带来国外葡萄园的管理理念和技术。但本土技术人员在分析中外葡萄园管理理念和技术的同时，还是应该结合本地情况加以应用。” (E-受访者6)</p>	<p>Foreign wine affiliates educate Chinese consumers about wine culture while marketing and selling their wines in China. This helps cultivate potential customers for China’s local wine enterprises. Wine consumers start to look for wines with different features only when they have enough knowledge of wine, and when the wine consumption gains a certain degree of popularity among Chinese consumers. Wine is a product with a personality. Only when consumers reach a certain number, can wineries further segment market. (F-Interviewee 3)</p> <p>IFDI facilitates the development of the Chinese wine industry. The affiliates of famous foreign wine enterprises have developed vineyard management, winemaking modes and corporate management concepts. They also innovate techniques according to local situations. These have shed light on local wine firms. Foreign affiliates integrate international resources and provide a new platform for their local staff to research and develop. Foreign affiliates welcome other local wineries to visit their workshops and vineyards. (E-Interviewee 3)</p> <p>Sino-foreign wine JVs and wholly foreign-owned wine affiliates have demonstration and promotion effects of winegrowing and winemaking, and so helps improve the related techniques of local wine industry. For instance, Chandon builds a chateau in Ningxia and produces very good bubble wine. Its vineyard management is quite successful, which attracts many visitors. (E-Interviewee 3)</p> <p>1. IFDI brings technological innovation for the local wine industry. 2. IFDI brings developed management mode for techniques, HR and finance. (E-Interviewee 4)</p> <p>1. Internationally famous wine companies invest branches in Penglai, which helps enhance the reputation of the local wine region. For instance, Lafite is one of the five most famous chateaus in the world. It builds a chateau in Penglai and greatly improves the brand awareness of local wine region. 2. Internationally famous wine companies invest branches in Penglai, which helps local wine region attract other investment. 3. Internationally famous wine companies invest branches in Penglai, which is helpful for Sino-foreign technique communication. For example, IFDI wine companies invite foreign experts to coach local staff, and create chances for local staff to study overseas. Foreign wine technique consultants who stay and work in Penglai thoroughly study about local climate and soil, which is beneficial to local wine grape cultivation. 4. Internationally famous wine companies that invest branches in Penglai bring foreign vineyard management concepts and techniques. However, local technical staff needs to combine local situation while analysing and applying foreign experience. (E-Interviewee 6)</p>
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Appendix 5.7 (continued)

“1. 外资带来资金，建设葡萄园和酒庄，投入酿酒设备，增加了当地葡萄酒行业的体量。
2. 外国直接投资有利于提升产区的品牌。
3. 外国直接投资带来生产、管理、经营理念。这给地方葡萄酒局管理官员为今后产区定位，生产管理注入新思想，进一步结合产区传统特点，制定促进产区可持续发展的政策。”
(E-受访者6)

“1. 外国直接投资当地葡萄酒行业有利于产区宣传，并且外资的示范效应有利于吸引更多投资，扩大产区规模。外资到中国来建葡萄酒企业，说明中国有良好的自然条件能种出好的酿酒葡萄和酿出好葡萄酒。
2. 通过企业的示范效应，外国直接投资促进当地葡萄酒行业技术提高、理念提升。理念，即不靠酒庄赚快钱，而是要踏实做出高品质的葡萄酒。但是理念必须得有相当的经济基础做后盾。烟台现在的酒企全部都是自己建葡萄园，这个比酒庄建筑、设施的投入大得多。要想好了多少年不赚钱，要耐得住寂寞。”
(E-受访者7)

“讲硬件包括设备、厂房，中国一点不落后于国外。政府招商引资，
1. 希望他们带来先进的酿酒理念、技术、经验和细节，以及做葡萄酒市场理念和经验。以拉菲蓬莱酒庄为例，首先它的经营理念体现的是要踏踏实实做好酒，而不是想着挣快钱。比如拉菲2010年宣布选址烟台蓬莱，2011年开始建葡萄园，2016年开始酿酒。截至2017年该酒庄还未开始卖酒。再从葡萄栽培和葡萄园管理来看，拉菲蓬莱酒庄的葡萄结果比同产区内其它的葡萄园好，病虫害也少。拉菲蓬莱酒庄在建设葡萄园之初，把当地的土壤送到法国检测其微量元素和有机质，根据检测结果和当地的气候特点，选择酿酒葡萄苗木。在葡萄栽培过程中，第一年会把长得弱小的葡萄苗用小旗子标识，分析原因，采取措施改善。树势控制得好，葡萄果实产量不高不低，都长在一个高度。
2. 外资到中国来建葡萄酒企业能从葡萄酒文化和葡萄酒认知上引导、教育中国葡萄酒消费者。”
(E-受访者7)

1. IFDI helps grow the scale of the local wine industry by bringing capital, building vineyards and wineries, and investing in wine equipment.
2. IFDI helps promote the brand of local wine region.
3. IFDI brings different concepts of production, management and operation. These shed light on local wine bureau officials with ideas of positioning local wine regions and managing local wine production. By combining foreign developed concepts and local realities and features, local wine bureau officials can make policies better suitable for the sustainable development of the local wine industry.
(E-Interviewee 6)

1. IFDI into the Chinese wine industry is beneficial for local wine region's advertisement. The demonstration effect of IFDI helps attract more investment and expand the wine region's scale. IFDI comes to China, which means China has natural conditions suitable for growing wine grape and producing quality wines.
2. The demonstration effect of IFDI wine companies helps improve local wine firms with their techniques and winery business philosophies. The so-called "wine business philosophy" is that winery operation is not for making quick money but working conscientiously and steadfastly to make quality wines. Wine companies now in Yantai region all have their own vineyards. Investors need a much larger amount of capital investing in vineyards than that for winery buildings and equipment. They need a solid plan from the beginning to prepare for strategically losing money.
(E-Interviewee 7)

1. China's hardware including equipment and factory buildings do not lag behind foreign countries at all. The government introduces IFDI in to Chinese wine industry and hopes them to bring in concept, techniques, experience and details on winemaking and wine marketing. Take Lafite as an example, the company's philosophy is making good wine but not making quick money. In 2010, Lafite decided to build a chateau in Penglai. It built its vineyards from 2011 to 2016. Since then, it started to make wine. However, until 2017, it has not started to sell any wine. In terms of Lafite's wine-grape growing and vineyard management, its grape berries are better than other local vineyards. There are less pests and diseases in its vineyards. When Lafite started to establish its vineyards, it sent local soil sample to France for testing microelements and organic matters. Then according to the test results and local climate, Lafite chose suitable grape varieties. During the planting process, Lafite's technicians used little flags to mark weaker vines, analysed reasons and looked for solutions. As a result, Lafite has well controlled the quantity of grape berries and nearly all the berries are growing at the same height from the ground.
2. IFDI into the Chinese wine industry helps promote local wine region's brand.
3. IFDI wine companies helps educate Chinese consumers with wine culture and wine awareness.
(E-Interviewee 7)

Glossary of Chinese terms

1. Chinese webpages

Chinese	English
中国葡萄酒资讯网	Winesinfo.com
中国酒业协会葡萄酒分会&知易数据	China Alcoholic Drinks Association Wine Sub-Association & Exact Data
中国社科院世界政治与经济研究所华商中心	Chinese Business Centre, Institute of World Economics and Politics, Chinese Academy of Social Sciences
中国酒业新闻网	Cnwinenews.com
中国产业发展研究网	Chinaidr.com
葡萄酒网	Putaojiu.com
中国葡萄酒信息网	Winechina.com
甘肃莫高实业发展股份有限公司	Mogao
今日财经服务	TodayIR.com
通化葡萄酒股份有限公司	Tongpu
威龙葡萄酒股份有限公司	Weilong
搜狐	Sohu.com
宁夏新闻网	NXNEWS.NET
中国新闻网	Chinanews.com
凤凰资讯	Phoenix New Media
酒庄网	All-Winery.com
人民网	People.cn
中国酿酒网	Zgnjw.com.cn
中国经济网	Ce.cn
中国印刷行业网	Chinaprint.org
中国葡萄酒品鉴网	Chine wine taster
宁夏葡萄产业发展局	Ningxia wine industry development bureau
国家统计局联网直报门户	Lwzb.stats.gov.cn
腾讯网	Tencent
新浪网	Sina
Baidu 企业信用	Baidu corporate credit
新华网	XINHUANET.com
青岛市情网	QDSQ.QINGDAO.GOV.CN
山东省商务厅	Department of Commerce of Shandong Province
佳酿网	Jianiag.cn
中国日报	China Daily
中粮集团有限公司	COFCO

(Chinese webpages continued)

中国网	China.org.cn
中国葡萄酒大赛	Chine Wine Competition
中国冰酒网	Icewine in China
宁夏回族自治区商务厅	Ningxia Department of Commerce
葡萄酒社	Wineshe.com
财经网	Caijing.com.cn
宁夏红酒网	Ningxiawine.net
糖酒快讯	Sugar & Alcohol News
宇博智业	YuboInfo

2. Wine regions in China

Chinese	English
新疆省	Xinjiang Province
石河子	Shi-he-zi
玛纳斯平原	Ma-na-si Plain
鄯善	Shanshan
甘肃省	Gansu Province
民勤	Minqin
武威	Wuwei
宁夏省	Ningxia Province
贺兰山	He-lan-shan
云南省	Yunnan Province
江边	Jiangbian
永仁	Yongren
弥勒	Mile
山西省	Shanxi Province
清徐	Qingxu
河北省	Hebei Province
汉沽	Hangu
昌黎	Changli
东北省	Dongbei Province
通化	Tonghua
山东省	Shandong Province
平度	Pingdu
胶东半岛	Jiaodong Peninsula
河南省	Henan Province
兰考	Lankao
民权	Minquan
夏邑	Xiayi

3. Wine companies

Chinese	English
张裕葡萄酒酿酒公司	Changyu Pioneer Wine Company
烟台张裕集团有限公司	Yantai Changyu Group Co., Ltd.
北平上义洋酒厂	Beiping Shangyi Winery
北京龙徽酿酒有限公司	Beijing Dragon Seal Winery Co., Ltd.
清徐露酒厂	Qing-xu-lu Winery
美口酒厂	Qingdao Melco Winery (Also known as Meikou Winery)
吉林长白山酒厂	Jilin Chang-bai-shan Winery
通化葡萄酒股份有限公司	Tonghua Grape Wine Co., Ltd.
北京夜光杯酒厂	Beijing Ye-guang-bei Winery
中法合营王朝葡萄酒有限公司	Dynasty Fine Wines Group Limited
北京波龙堡葡萄酒业有限公司	Beijing Bo-long-bao winery company
河北马丁葡萄酒有限公司	Sino-Foreign Joint Venture Martin Wine Co., Ltd.
怀来紫晶庄园葡萄酒有限公司	Huailai Amethyst Manor
酩悦轩尼诗国际有限公司	Moët Hennessy
酩悦轩尼诗夏桐（宁夏）酒庄有限公司	Domaine Chandon (Ningxia) Moët Hennessy Co., Ltd.
ASC 精品酒业	ASC Fine Wines

4. Personal names

Chinese	English
张弼士	Zhang, Bi-shi
沈蕙璞	Shen, Yun-pu
张治平	Zhang, Zhi-pin
飯島慶三	Iijima Keizou
木下溪司	Kinoshita Keishi
桜井安藏	Sakurai Anzou

5. Others

Chinese	English
《中华人民共和国中外合资经营企业法》	the Law of the People's Republic of China on Sino-Foreign Equity Joint Ventures
烟台市人民政府国有资产监督管理委员会	Yantai municipal State-owned Assets Supervision and Administration Commission (SASAC)
天津农场局	Tianjin Farm Bureau
禧	Xi
福昌洋行	Chang Yang Hang
最美时洋行	Zui Mei Shi Yang Hang
黑山扈	Hei-shan-hu
宁夏农垦集团有限公司	Ningxia Farms and Land Reclamation (Group) Co., Ltd.
酩悦轩尼诗国际有限公司	Moët Hennessy
酩悦轩尼诗夏桐（宁夏）酒庄有限公司	Domaine Chandon (Ningxia) Moët Hennessy Co., Ltd.
ASC 精品酒业	ASC Fine Wines

Endnotes

ⁱ Terroir “is a French concept incorporating everything that contributes to the distinctive character of a particular vineyard site: its soil and subsoil; its drainage, slope and elevation; and its microclimate, which in turn includes temperature and precipitation, exposure to the sun, wind and fog, and the like. ...The concept of terroir is essential to understanding a variety like pinot noir, for example, because this grape is hypersensitive to its environment, reflecting the slightest nuances of soil and climate in its aromas, tastes, textures, structure and aging curve” (Tanzer, 2010).

ⁱⁱ NOI is calculated as gross outward investment stock less gross inward investment stock.

ⁱⁱⁱ Strategic alliances are defined as inter-organisational collaboration with shared objectives of business partners; joint venture and joint R&D are two of the forms (Das & Teng, 1998). In terms of differences between strategic alliances and joint ventures, first, joint venture refers to the establishment of a new jointly-owned entity by partner organisations (Walters, Peters & Dess, 1994; Gulati, 1995); second, the scale of projects that are eyed by joint ventures are generally larger than those by strategic alliances (Walters et al., 1994).

^{iv} OIV calculation formula: consumption = production + imports – exports (International Organisation of Vine and Wine, 2017).

^v In 1980, Dynasty was established as the first Sino-French wine JV in the Chinese wine industry. It changed its ownership structure and became a wholly foreign-owned firm since 2018.

^{vi} The so-called “three public consumptions” refer to overseas work trips, government-use of vehicles, and official receptions.

^{vii} The researcher has reviewed a variety of official websites but could not find information on IFDI in the Chinese wine industry. These websites included:

- The official websites of China’s authorities: a) China Alcoholic Drinks Association, and b) National Bureau of Statistics of China
- An exclusive wine-related information website in China: www.winesinfo.com
- Three subscription databases at the library of the University of Waikato:

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- a) Passport/Euromonitor International, b) Emerald, and c) Proquest Management
- The official websites of international commerce and trade authorities: a) the IMF, b) the World Bank, and c) the UN Conference on Trade and Development
- ^{viii} The researcher visited one interviewee at his vineyard in Blenheim, New Zealand, and conducted the interview.
- ^{ix} Enological excipients are used by winemakers to facilitate the fermentation of wine grapes. They mainly include enological yeasts, tannins, oak, metatartaric acid, citric, CMC, mannoproteins from yeast etc. (FE-Interviewee 3).
- ^x The acronym DM stands for dragon multinational, a term used to refer to dragon multinationals in the literature and used by Mathews (2017) in his work.
- ^{xi} According to Jaspers, Prencipe and Van den Ende (2012), “Architectural innovations are reconfigurations of existing products” (p. 419).
- ^{xii} According to Thorpe (2009), the “Old World” wine-producing countries mainly include France, Italy, Spain, Portugal and Germany. Major “New World” wine-producing countries include the USA, Australia, Chile, South Africa, New Zealand and Argentina.